SECURITIES MARKING TIME—OR ENTERING NEW PHASE? ★

The MAGAZINE of WALL STREET and BUSINESS ANALYST

OCTOBER 11, 1947 50 CENTS

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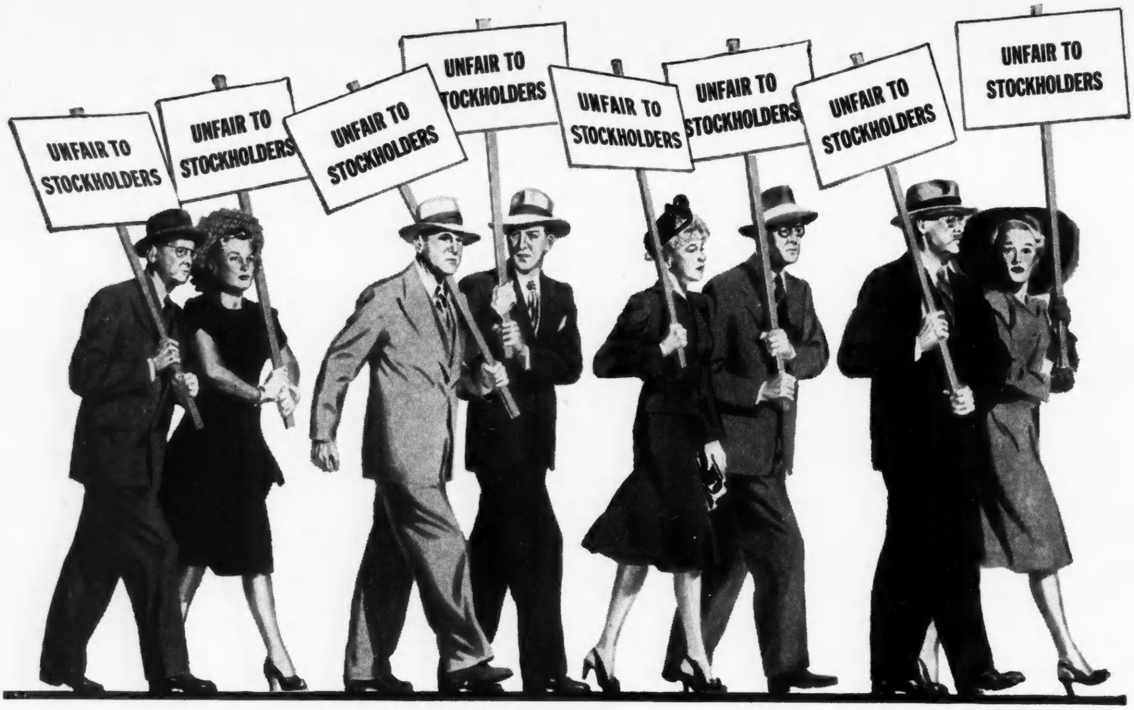
HOW FAR INDUSTRIAL STABILIZATION?
—Where Sellers' Markets Continue
—Where Buyers' Markets Have Arrived
By PHILLIP DOBBS



STOCKHOLDERS IN OTHER BUSINESS HAVE A STAKE ALSO IN RAILROADS

Stockholders of all kinds of business should be interested in fair treatment for railroad stockholders.

Freight rates are too low to meet the mounting costs of railroad operation and allow railroad stockholders a fair return on their investments. If railroad stockholders are squeezed out—railroad operation would fall on the Government. Under Government operation, taxes to support the railroads would fall principally upon other corporations—owned, in turn, by their stockholders.

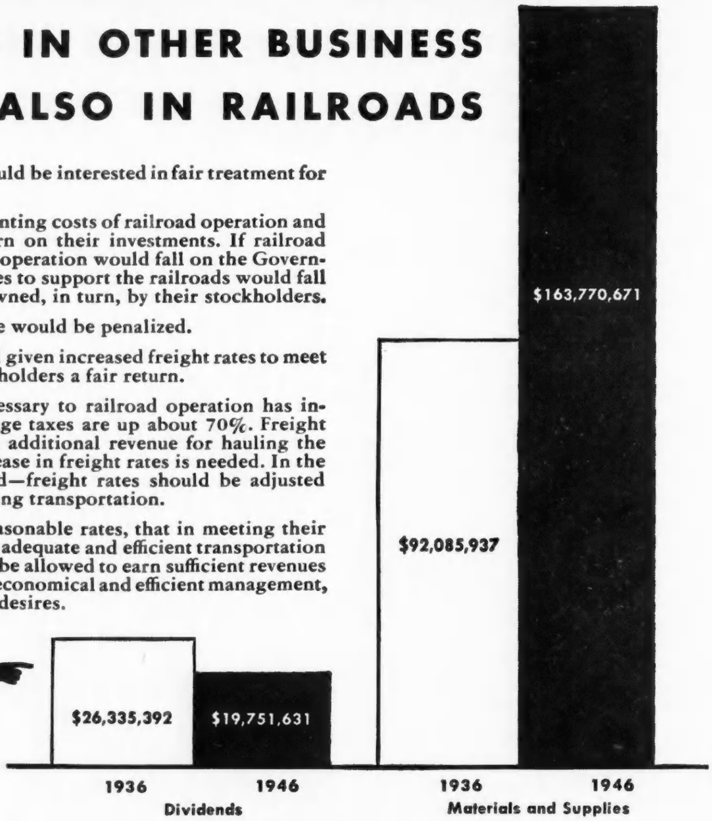
In other words, stockholders everywhere would be penalized.

Railroads should be treated equitably and given increased freight rates to meet increased costs and allow railroad stockholders a fair return.

The cost of materials and supplies necessary to railroad operation has increased 87% since 1939; wages and wage taxes are up about 70%. Freight rate increases have produced only 15% additional revenue for hauling the average ton of freight one mile. An increase in freight rates is needed. In the interest of everyone—employes included—freight rates should be adjusted promptly to the higher costs of performing transportation.

What the railroads desire is just and reasonable rates, that in meeting their responsibility to the public in furnishing adequate and efficient transportation service at the lowest cost consistent, they be allowed to earn sufficient revenues to enable the railroads, under honest and economical and efficient management, to provide the public with the service it desires.

NOTE THE CHART—While the stockholders' share of Pennsylvania Railroad income has declined, those who sell us our supplies have received a bigger and bigger share.



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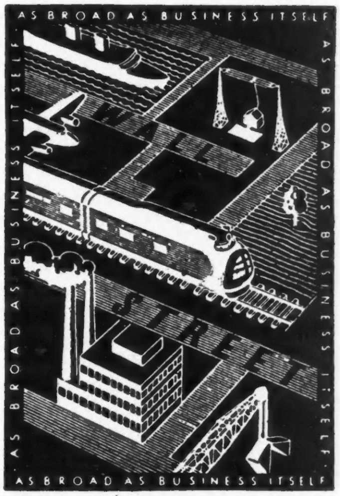
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* E. A. Krauss, *Managing Editor* Arthur G. Gaines, *Associate Editor*



The Trend of Events

BREAK-EVEN POINTS . . . admittedly sharply higher against prewar, are coming in for a good deal of study and discussion. To businessmen, we understand, they are a source of considerable concern, decidedly the fly in the ointment of current high corporate earnings. Few fail to see the hidden threat to profits that lurks behind the sharp rise that has occurred in the wake of spiraling costs. Hence they are watching closely the break-even points in their business—the point that marks the dividing line between profit and loss.

Undoubtedly, break-even points in many instances have risen dangerously. In such cases, though volume and profits now may be at an all-time peak, a relatively moderate drop in sales may mean red ink. Westinghouse, for example, doing a business of over $200 million annually, recently stated that its break-even point today is double that of 1941 and that a 25% drop in sales would erase all profits. Others doubtless are similarly vulnerable, though on the whole there are great variations in degree.

In view of the importance of this matter to investors as well as to businessmen, we have endeavored to determine just how great the rise in break-even points has been since prewar, and to that end we have asked a sizable cross-section of America's leading corporations to tell us of their experience. We have learned that in virtually every instance, the "point" has risen sharply though not always for the same reason. Thus in one instance where the break-even point has risen from 40% in 1939 to 70% at present, this steep advance was almost entirely attributable to lower margins of gross profit. Another corporation, since 1939, reports a rise of fully 500%; this however was not only due to higher labor costs and increased prices for materials but importantly also to considerable expansion during the period covered.

Higher costs were mainly responsible for the substantially higher break-even point reported by most companies but such factors as expansion, the introduction of new products, etc., have also contributed heavily. Obviously, where the latter is the case, a higher break-even point has different connotations than if solely due to cost increases, that is to narrowing gross profit margins. It is less of a danger signal.

It has been suggested that the significance of break-even points may well be overrated, for it exists only on the assumption that the conditions under which they are determined will continue to prevail when operations drop. Actually they hardly do. As sales volume fluctuates, the figure is constantly changing with management endeavoring to alter methods of operations so as to bring about a lower break-even point. In other words, break-even points established on current conditions may falsely be given a prophetic weight that they decidedly do not deserve, since they reflect only the present levels of costs, and other important factors subject to change. Frequently also they are based on arbitrary assumptions which may render them of no practical significance. By cutting costs, by increasing efficiency, business and industry is forever striving to make their structure more flexible, and in this manner undoubtedly may succeed in minimizing the adverse impact of declining sales.

All this does not change the bald fact that current high corporate earnings are largely due to, and dependent upon, record sales at attractive prices.

Profits are high because production and prices are high, certainly not because cost ratios are low. Any drop in selling prices, any shrinkage of markets is bound to be quickly felt at today's far more rigid cost structure, with high union wages constituting a major element of inflexibility. Still when the test comes, it may be found that today's high break-even points may not actually be the point of vanishing profits. A great deal is being done to cut costs by stepping up efficiency, as witness the immense investment in new plant and equipment, in plant modernization and reahibilitation. All these steps have but one aim—to produce cheaper and more efficiently; they are the most effective moves in counteracting high break-even points.

It shows that business and industry is fully aware of the necessity to prepare against the day when they face declining prices and shrinking volume. The race to cut costs, to step up efficiency, is already on. Few will complacently wait until a decline is under way, when it is usually too late to do more than hold losses to a minimum. Break-even points may be dangerously high but we cannot help feeling that the traditional ingenuity of American business will find ways and means to hold its own when rough weather sets in.

MARGIN TRADING . . . The New York Stock Exchange, effective October 1, has permitted resumption of margin trading in stocks selling between \$5 and \$10 a share. Margins of 25% are permitted. This marks the return of margin trading in this price range after an absence of two years. The present low volume of Exchange transactions and the increased number of shares selling at less than \$10 have undoubtedly motivated this step which on the whole must be regarded as constructive. However it is doubtful whether—at least for the time being—this action will markedly stimulate trading, especially in view of the fact that the requirements calling for an initial minimum deposit of \$1,000 to open a margin account has not been altered.

When margin eligibility was limited to stocks selling above \$10, it represented a move to curb speculation in low-priced securities. Such speculation this year has greatly fallen off, doubtless due to increasing preference for better grade issues, many of which —by virtue of stock splits and because of the market decline — have been brought in the lower medium price range, within the reach of investors and speculators with limited funds. Also, a good many speculators in low-priced issues have been "frozen in" by substantial paper losses. In the circumstances, and under present market conditions, the latest margin action may prove relatively unimportant though this may well change on any marked revival of speculative interest, recently at low ebb.

COMMODITY TRADING . . . By way of contrast, margin requirements for commodity trading, especially at the country's big grain markets, still appear far from ample to protect the public interest. True, formerly nominal margins have latterly been raised in the wake of official and public concern about excessive speculation which in no small degree has contributed to our inflationary problems as outlined elsewhere in this issue. But such corrective action has definitely fallen short of the desirable mark, and a further tightening of margin requirements would therefore seem in order. We do not ignore the fact that other influences, notably heavy Government buying for export, have materially contributed to soaring commodity prices. But speculation, too, has broadened enormously and it is this activity which should be further curbed to prevent run-away markets which may have serious repercussions on our whole economy.

BOOM STILL RUNNING STRONG . . . The news that industrial production turned upward again in August after a four-months decline was widely received with considerable gratification and relief. As measured by the Federal Reserve Board Index of Industrial Production, national output climbed five points in August to 182% of the 1935-39 average. In July it had gone down to 177%, giving rise to fears that a definite let-down in business was at hand. As it is, the July figure—so far at least—proved to be the bottom of a slide from the postwar peak of 190% reached last March. The August advance is ascribed chiefly to rising output of non-durable manufactured goods and minerals to levels somewhat above June when the overall Index stood at 184%. Durable goods manufactures, too, rose but stayed 3% below June levels. Total value of retail trade continued to show little change. But prices of goods in wholesale and retail markets advanced to new highs.

The August improvement doubtless mirrors certain seasonal factors including heightened activity in textile industries where the placement of fall and winter orders has been unduly delayed by price developments. But broadly speaking, it may be assumed that the upsurge of prices recently noted all along the line has importantly contributed to acceleration of activity. Quite evidently, our postwar boom it still running strong though the picture could change quickly if food prices get further out of hand.

A peculiar feature of the boom is that something comes along to keep it alive whenever a lag threatens. Early this year it was the great spurt in exports. In mid-summer it was the unseasonal revival of construction activity, with construction awards rising by one-fourth from July to August. In August, trade volume was kept from further sliding off with state bonus payments to veterans, and cashing of terminal leave bonds in September may have had the same effect. Whether lifting of consumer credit controls in November will prove a similar "shot in the arm" remains to be seen. It may well be that without these stimulants, the erosive effect of high food costs on consumer purchasing power may have been far more pronounced in the trade field. The future trend will bear close watching.

Meanwhile there is little doubt that implementation of a Marshall plan which now appears almost inevitable, is bound to impart continued strength to our national prosperity. The fate of Europe thus will have a direct bearing on the future course of business here at home. For the present, there is no significant change in tempo of our industrial activity. Despite the danger inherent in the price situation, business and industry — with heavy Government buying in prospect—is not likely to lose much ground while awaiting concrete developments.

As I See It!

BY ROBERT GUISE

PRODUCTION VERSUS PROPAGANDA

THE virulent Soviet press campaign against the West, the sudden outcrop of violent insults against America and American leaders clearly shows up the pattern that the Kremlin has set for its bid for power, the aggressive policy it pursues to win its aim of communizing Europe and the rest of the world. In attacking America, in particular, Russia is attacking our free enterprise system because she considers it the strongest force standing in the way of realization of her goal.

Announcement of the organization of a new Communist International merely proves the point; the importance of this announcement lies not so much in what is said but in the fact that now at last it has been said. Russia fears the Marshall plan, the success of which would be a deadly blow to her bid for power in Europe; hence she goes to any length in attacking those responsible for it.

The nature and direction of the Soviet hate campaign is at once a confession of Russia's greatest weakness. When the Kremlin assaults and slanders American capitalism, it attacks the genius and the productive system that made it possible for America to become the arsenal of the world without which neither the Western Allies nor Russia could have won the war. Russia's great ambition now has become to undermine America, to discredit our system in the eyes of the world. Lacking the industrial strength, and the technical and managerial know-how to create such strength, Russia is obliged to turn to propaganda, possibly even to direct political action through her Communist stooges whom once more she is rallying in a newly created Comintern. The bald fact is that she has nothing with which to counter the Marshall plan except slanders and political maneuvering; lacking production, lacking the wherewithal to lend material support to Europe, such as we intend to do under the Marshall plan, she now proceeds to do her best to sabotage it with every means at her command, both from within and from without. That, essentially, is the aim of the new Communist International.

"WE MUST HAVE MISSED SOMETHING THE FIRST TIME WE READ THE BOOK"

Courtesy N. Y. Herald-Tribune

The Marshall plan is labelled "imperialistic" though nothing could be farther from the truth. Its humanitarian aspects certainly contrast favorably with Russia's deliberate moves to foist upon the people of the world, and to perpetuate, a state of scarcity, poverty and misery so as to weaken their ability to resist communist encroachment.

Russia's latest move simply spotlights the fact that in her fight for expansion and world leadership, her industrial weakness is her most serious handicap, America's great productive strength the most irritating obstacle in her path. For does not a comparison illustrate convincingly the immense superiority of our private enterprise system over the concepts of totalitarian economy? How else can the world, and especially those countries which Russia hopes to sway or force into her orbit, interpret the high standard of living under American capitalism and the appallingly low standard under Russian communism? To the Kremlin, this presents a dilemma that obviously called for strong countermeasures. Hence her campaign against America, her vitriolic propaganda to convince the world that the USA is a capitalistic "monster" plotting to destroy "socialist democracy." Hence her vituperative attacks on "capitalist monopolies," meaning every successful American business. Hence her slanders against our Government and our business leaders whose ability she fears because she cannot match it. What we must read into the Kremlin's campaign of vituperation is jealousy and anger over our own strength, confession of Russias' weakness and shortcomings, and a blustering attempt (Please turn to page 55)

Securities Marking Time

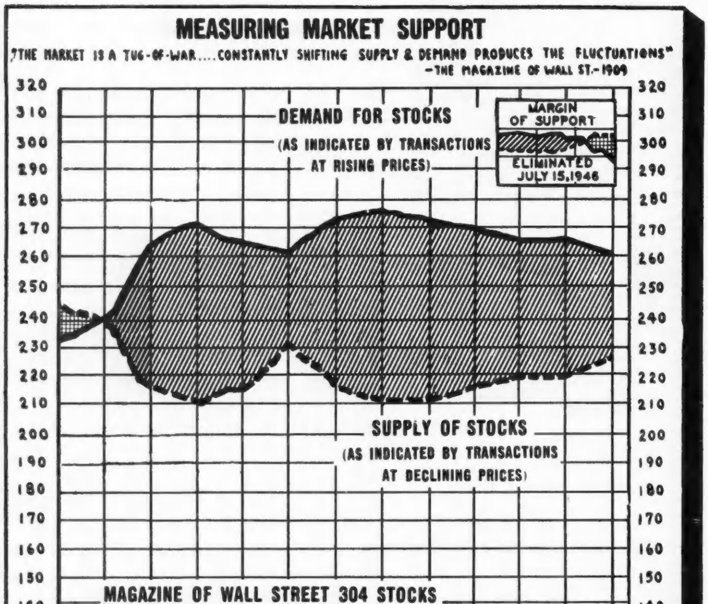
......OR ENTERING NEW PHASE?

On the basis of technical indications, at least a temporary revulsion from European-crisis fears, and evidence of added vigor in the domestic economy, we think the prospect is for a market recovery of some proportions. Continue to hold the 75% invested positions in selected stocks which we have been advocating for some time.

By A. T. MILLER

Market action improved considerably last week, the first six-session trading week since May. The net gains for the period left the Dow-Jones industrial average 4.58 points above its previous lowest close on the July-September sell-off, registered September 26; and the rails 2.25 points above their previous reaction-low, which was seen as far back as September 8. The volume of trading expanded fairly sharply on the buying side.

Although the rally to date is of no more than moderate proportions, there are some technical considerations, and accompanying external circumstances, which lead us to believe that the chances now favor the upside, with something more than a minor and short upturn probable, barring a shift in the foreign news more disturbing than the market has allowed for. Specifically, the prospects for an intermediate uptrend, lasting over a period of some weeks and eventually testing out the July recovery highs, without more than normal and small reversals meanwhile, appear to have been substantially improved. As to whether those highs may be bettered at some time during this final quarter of the year, we see no basis for any conviction one way or another. However, we do not rule it out as a possibility.



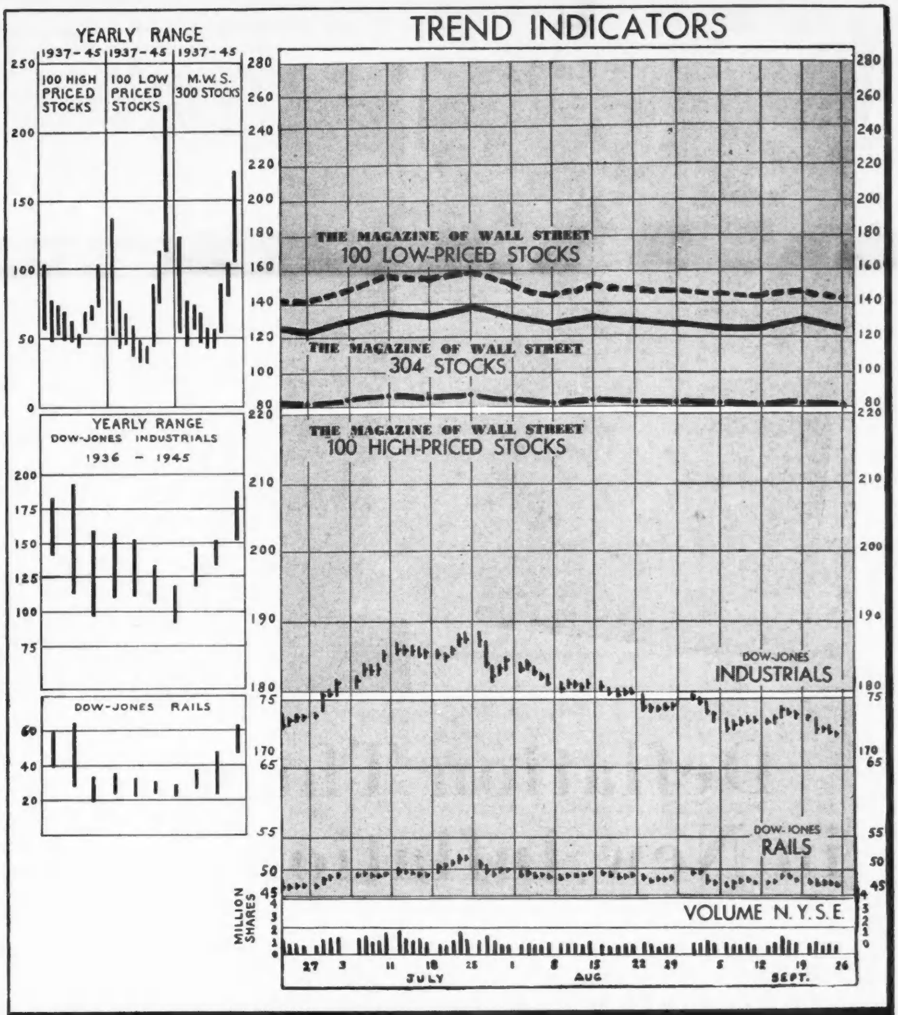
Some Background Considerations

When the trend indications become more promising after weeks of dubious action, there are always, of course, good reasons for that. Often a market builds its own case for a recovery by the way it behaves on a decline; and that is undoubtedly so in this instance. As we have noted before, the list displayed an impressive degree of resistance to pressure on the July-September decline. That was especially so during the September phase, when gloomily exciting newspaper headlines on the European crisis dislodged relatively little stock and found that well absorbed. On each of the September selling flurries there was a reduction in the momentum of the reactionary trend, as measured by volume and total points lost by downside stocks. The decline in the industrial average ran for about 12 weeks for a total loss of about 12 points, but failed to carry prices anywhere near the important May low either for industrials or rails.

The previous intermediate swings (those running over three weeks) of the last 12 months or so were as follows: About 16 weeks up, for 20.29 points in the industrial average, from October 30, 1946, to last February 8; 14 weeks down for 22.28 points from the February 8 high to the May 19 low; 10 weeks up for 23.64 points from the May low to the July 24 high. The time factor of 12 weeks down from the July high squares pretty well with those of the previous swings. Taken in conjunction with the satisfactory market undertone shown throughout the reaction by the Support Indicator chart, this is one consideration suggesting that a reversal in intermediate trend, as distinct from a rally in a downtrend market, is due. However, it cannot match the preceding recovery phases in points unless the July high for the industrials is to be surpassed.

by a decisive margin.

Some other technical considerations are as follows: (1) The downtrend line delineated by the rally highs since July 24 has been definitely broken by the rally from the September 26 low. (2) Last week was the first, since the termination of the summer rise, in which the industrial average was able to put together five consecutive sessions of advance. (3) On an average, October has been a better market month than September. (4) There is clear evidence of a revival of speculative interest.



The fourth point is potentially important, but full judgment on it will have to be reserved for a time. The resumption of margin trading in stocks priced between 5 and 10 may eventually become a factor. Perhaps there has also been some shift from grain speculation to low-price stock speculation, as a result of increasing government frowning on the former. In any event, our index of 100 low-price stocks rose 18.09 points last week, compared with only 2.81 points for the index of 100 high-price stocks. It is the one significant index already well above its July recovery high. The change in the spread between it and the high-price stock index was the sharpest ever seen in a single week during the eleven years these indexes have been compiled.

If the margin change is the whole story, or nearly so, the stimulus to speculation may be rather short-lived. The next few weeks will throw more light on it. Meanwhile, however, it can be noted that stocks which are meeting with a more active speculative demand are by no means confined to those in the 5 to 10 price range. There is evidence in a fair number of others above that price range of a budding willingness to assume greater risks. You see it, for instance, in the sharp recovery in the long depressed liquor stocks; and in a scattering of new 1947 highs for special issues in a number of fields, the majority of them priced from around 15 up to nearly 40.

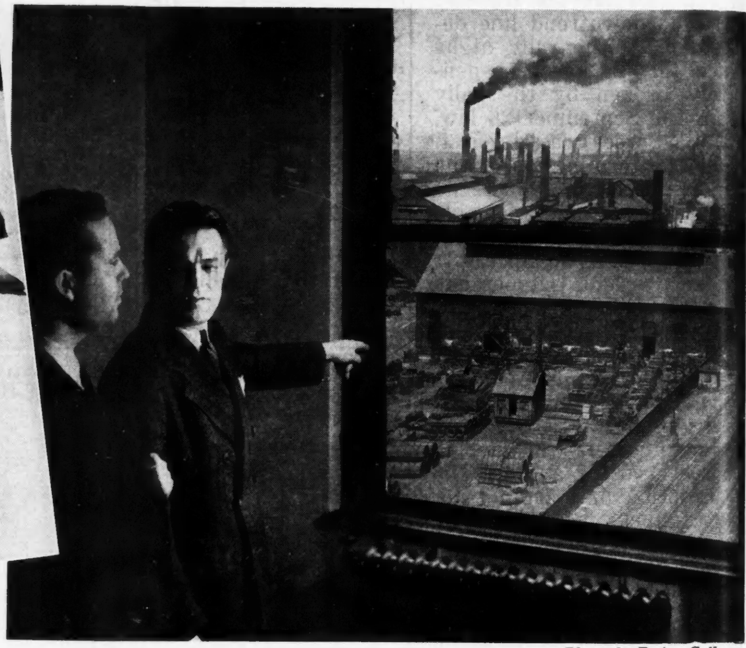
The External Factors

Of course, the basis for a market rise of some proportions is by no means entirely technical. For the time being, the market has been satiated with "foreign crisis" and there has been a kind of psychological revulsion from it. It is reasoned that the European problems have been fully advertised, perhaps too much so; that they are out in the open; and that Europe will not explode tomorrow. Nobody suggests that there will not be more crises in one form or another; but they will probably have to be new, rather than shifting angles on the Marshall program problems, to unsettle the market. The revulsion in immediate sentiment has extended to a sharp rally in foreign government bonds. How long the lull will last is problematical.

In any event it has already permitted investment and speculative attention to focus more closely on the domestic economic scene; and the visible manifestations therein not only remain favorable but have recently become more strongly so. This publication's weekly business index is at a new postwar high. It is certain that the Reserve Board production index, in which the mild summer let-down was partly made up in August, will show another good gain for September. Latest data on industrial employment, building contract awards, steel and automobile demand, and retail trade are definitely encouraging. The long-heralded recession, in short, is still "around the corner," its timing about as conjectural as ever.

We continue to believe that about 75% invested positions in selected stocks as advocated for some time, are fully warranted. —Monday, October 6.

Solving the price problem—with food prices the key—is essential to economic stability and continued prosperity



Photos by Ewing Galloway

Deflation Threat in New Inflation *Spiral*

By E. A. KRAUSS

High prices are occupying the thoughts of most people today, be they housewives, wage earners or businessmen. None of them escape their impact. The public is becoming thoroughly aware that the cost of prosperity can be high, and that it is just as difficult to stretch a dollar in a period of inflation—when dollars are plentiful—as it is in time of deflation, when dollars are scarce. Grocery bills, already high, go on sky-rocketing, keeping family budgets painfully unsettled as food is daily snapping up a bigger chunk of available spending money. The businessman wonders how all this will in the end affect him, for it is not hard to see how such a trend, unless stabilized or reversed, carries a most serious threat to our economy.

Not so long ago, earlier in the year, there was what seemed a fair chance of a downward adjustment in our overall price structure with the prospect that existing maladjustments could be corrected with no more than a mild jolt to business. Unfortunately this expectation has not materialized. Instead, we find ourselves engulfed by another wave of price inflation that leaves the average consumer breathless and no little worried. What has happened? What has blasted our optimistic dream of a stabilized price structure in a dangerously unstable world? The explanation is not difficult to find.

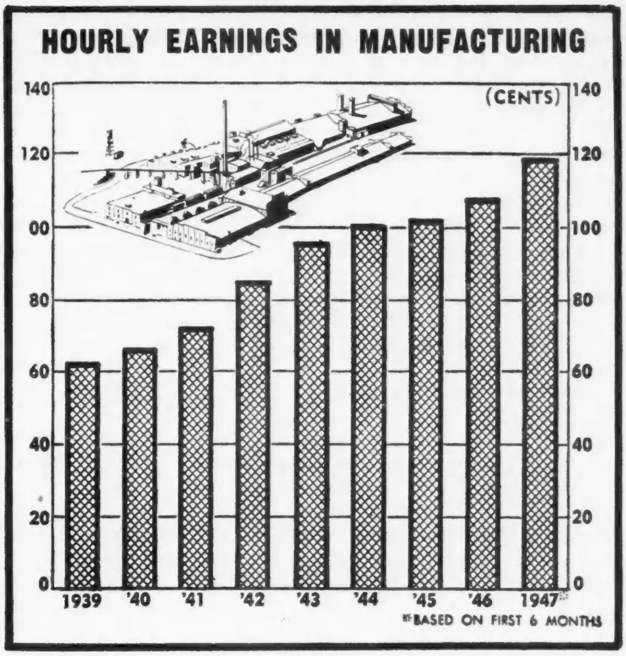
Perhaps the broadest answer to the question is that production of almost everything, but particularly of necessities, has not been sufficient to meet demand. Within this framework, however, all sorts of forces have been tugging at prices and by far the strongest and most far-reaching have been those affecting food prices. The latter, instead of stabilizing, continued their strong upthrust, leading to new wage demands that culminated last Spring in sizable wage boosts in such basic industries as steel and coal. This brought about higher prices for a wide range of manufactured goods, and is still causing delayed price hikes in a good many fields. Another rise in freight rates, just ahead, undoubtedly will force more price boosts, for freight rates are an important cost factor in the production of almost everything.

Main Inflation Factors

Obviously, rising food prices have been the main instigator of the current price inflation; with their uptrend unbroken, they threaten another spiral that may well become "the straw that breaks the camel's back." The key to the food situation is unprecedentedly heavy domestic and foreign demand, latterly aggravated by our short corn crop and unsatisfactory crop yields abroad due to drought. As it is, the rising spiral is not apt to break until demands are realistically adjusted to the crop picture, something that is far easier said than done. Efforts to curb domestic food consumption by persuasion promise little and it is doubtful whether reinstitution of price controls or rationing will be politically feasible. At the same time, foreign food needs continue to strain to the utmost our ability to meet them.

Thus in the entire picture, unfortunately, it is hard to find any influence that may tend to work for lower prices, and herein lies the threat. A new round of wage demands by organized labor, the third one, is looming ominously on the horizon and union strategists are actively preparing for it. The Government is gloomy over the prospects of leveling, let alone lowering prices. With living costs advancing steeply, they are forced to admit that the increase in real wages that labor enjoyed during the war period is playing itself out and that worker income is beginning to lag behind the cost of living. This, needless to say, is grist for labor's mill.

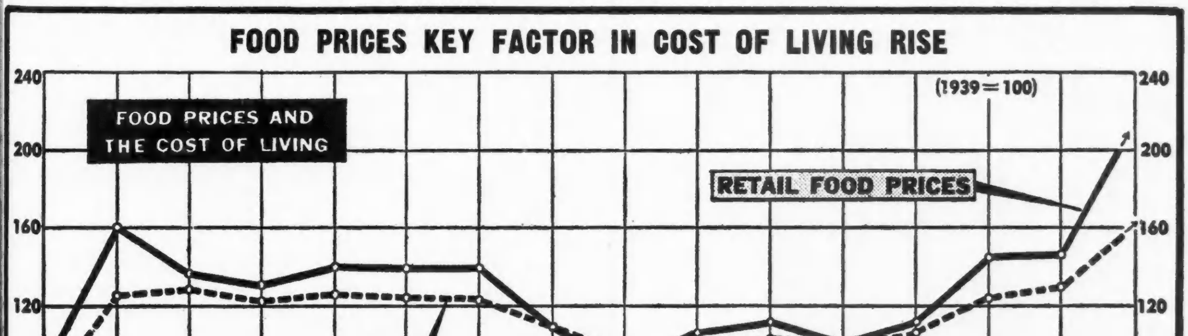
Under the impact of soaring prices, the economic position of the consumer generally has been deteriorating steadily; in recent weeks he has been particularly hard hit. Wage increases have been going largely to those who already were getting relatively high wages, that is the strongly organized unions. The white collar worker has been less fortunate, though he too has enjoyed pay increases. Those living on fixed incomes have been, and are being, squeezed mercilessly. The crux of the matter, in short, is that the additional purchasing power stemming from wage increases has been distributed rather unevenly among the various segments of our vast consumer army. In the long run, this cannot but have serious unsettling effects. While the spending power of many is steadily being curtailed, factories continue to pour out manufactured goods at rates of 80% to 90% above prewar, in a good many instances. Full employment depends upon the public's ability to absorb this huge production—after buying food. This ability is constantly being cut short. Of the average dollar spent today, close to half is paid for food as against 35c before the war. Rents, too, are rising, and so are the prices of numerous goods. All this certainly does not make for healthy business. If allowed to continue, it will spell real trouble. Deflationary potentials inherent in this situation are obvious.



Revival of Consumer Resistance

Businessmen generally are well aware of this, and revival of consumer resistance is added proof of the squeeze that is again experienced. Key manufacturers are increasingly concerned about the public's ability to absorb the high industrial output; so are the big retailers, all of whom have gone on record favoring substantially lower prices. Their pressure on manufacturers is increasing, with varied success. Additionally, the sag in exports of manufactured goods may take more wind out of the production sail. The huge domestic buying power, of course, remains the main driving force but it is only too well recognized that even a relatively modest let-down will be felt very quickly. A dip of a mere 5% in domestic spending would be equal to an 80% drop in exports. It is clear that if food prices continue to spurt ahead, they will eventually reach a level where the bubble will burst. Such a break almost certainly would spread quickly to most lines of business and bring about a full-fledged recession.

Price booms are dangerous booms, fragile and often easily upset; the end sometimes is at hand before it can be foreseen. Few doubt that if prices continue to soar at anything like the rate since July,



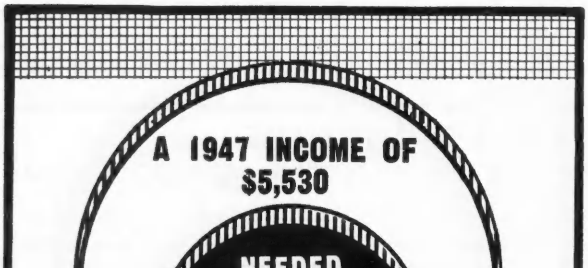
they will sooner or later either collapse with a sickening crash or else—if spiral follows spiral—lead into virulent inflation of the kind that we now see abroad. In either case, it would leave behind a lot of wreckage.

We are experiencing a dangerous inflation. The trend is still upwards and the end is not in sight. We all hope that it may be checked in time though nothing has occurred as yet to stop it. Investigations of high food prices—admittedly the main inflationary influence—are likely to bear little fruit, and the reasons are obvious. They are due to two principal causes: (1) The record domestic consumption of food, the result of full employment at home; and (2) Our almost single-handed attempt to feed the world. Because of this, USA wholesale prices of all foods now average fully 177% of the level prevailing in 1939.

Important Subsidiary Causes

Apart from the two principal factors, there have been important subsidiary causes. One of them is the Government's crop support program which undoubtedly must assume a large share of responsibility for increased food costs. The other is unbridled speculation. Those close to the situation insist that little progress towards stabilized conditions can be made until the heavy speculation in food commodities stops. Too many persons, not normally buyers of such commodities, have been seeking and making profits by betting that the Marshall plan, and the general worldwide food shortage, will make for substantially higher prices.

In the circumstances, revival of controls and rationing—as mentioned before—will hardly be the thing to correct the situation. At best it would be a double-edged weapon since it might revive black markets to an extent seldom seen in this country. Black market prices might rise dizzily, taking an even greater chunk out of consumer income, and shortages might be greatly intensified. Probably more effective remedies—to the extent that any remedy can be effective under today's conditions, would have to include: (1) Severe restraint of speculation; (2) Better timing of Government purchases for export to avoid extreme market fluctuations; (3) Adoption of voluntary plans by consumers and industry—as now proposed—toward elimination of excesses in eating and buying habits. And with an eye to the broader inflation picture: (4) Holding the line on wages, and (5) greater productivity and production in every line so as to absorb some of the purchasing power that is now helping force up food prices.



In its overall implications, licking the price problem—with food prices the key—is essential to economic stability and continued prosperity; it is the key to corporate profits, to individual pocketbooks, even to political developments. Realistically, chances for well-sustained business depend on the answer to this basic question: How long and to what extent can the consumer's pocketbook maintain industrial profits?

The actual rise in living costs is considerably greater than the 60% (since 1939) increase indicated by Government figures. Apart from higher outlays for food, clothing and other necessities, the unavailability of low-priced goods tends to intensify the squeeze on the consumer in the lower income brackets. This will be true even should food prices stabilize around current levels which would still be too high for many at current income rates. From a business standpoint, it boils down to this: The price rise already witnessed has been so sharp that with few exceptions, consumer goods industries cannot anticipate any further increase in unit sales, except perhaps for a very short time. Prices are simply too high for further sales expansion, or even for maintenance of recent volume in many lines. In that sense, even the present price structure is full of deflationary connotations. Department stores have felt this rather acutely; not only dollar sales, but unit sales have fallen below those of last year. A similar trend is becoming evident in the clothing and shoe industries. Unless remedied, the whole range of consumer goods industries may ultimately feel the impact and, be it noted, recessions or depressions usually start in consumer goods.

Suggested Remedies

Though the public has an income double that of 1939, these dollars at present high prices can buy only so much. If necessaries like food absorb far more than their normal share and prices for other consumer goods also rise, as they have done, it is clear that somewhere along the line, the buying of wanted items has to stop or be postponed. And it cannot be food. Nor will it be just one single other item; rather it will affect the whole range of consumer needs.

What can business do to prevent such a chain reaction? I believe business has many opportunities to get back some of the customers who have already been priced out of the market, and to prevent others from following. Despite higher production costs, existing large corporate profits and many new opportunities for cost-cutting indicate the existence of substantial leeway for price cuts. Recent price increases for goods have been considerably out of line with cost increases which precipitated these price boosts. To mention but one item—automobiles. When steel prices were raised recently following higher steel wages, it was (*Please turn to page* 54)

THE EXTENT OF...... INDUSTRIAL STABILIZATION

★ ★ ★

—WHERE SELLERS' MARKETS CONTINUE
—WHERE BUYERS' MARKETS HAVE ARRIVED

By PHILLIP DOBBS

The continued high level of production nd trade in this country, as shown by such overall dexes as output, employment, and national income, dicate an unusual and gratifying degree of stabil- y during the past fifteen months since the ending f wartime price controls and rationing. Aside from e political and economic crisis in Europe, our chief oblem has been that of rising prices, caused by e heavy postwar demand for goods and the excess f purchasing power in circulation. Price advances most lines other than food products have perhaps en no greater than was to be expected in view of e increase in wage costs and the curtailment of oduction by strikes, reconversion of plants, and aterial shortages. Despite this price maladjust- ent, the general business situation has given the pearance of relative stability.

In contrast with the overall picture, however, ny of the major components have been anything t stable. Sweeping changes following the end of e war have now been virtually completed, and it s been found, contrary to predictions of wide- ead unemployment and business depression, that e heavy cut in government spending was offset mptly by increased expenditures by individuals d by business.

Increased Personal Spending

Personal spending increased not only for the new tomobiles, appliances, and other durable goods t became available, but also for nondurable goods and for services. Business expenditures increased for plant reconversion, modernization, and additions, as well as for machinery and equipment, rebuilding inventories, and financing a record-breaking export boom. Total national expenditures—personal, business, and government—not only recovered quickly to the wartime peak but have soared to new high levels.

Within the framework of this postwar transition of the American economy, a series of important changes have taken place among the different branches of industry. These vary in extreme degree, depending principally upon the extent to which the industries found it necessary to convert their plants and their production to war materials.

In some lines, such as food processing, there was little or no alteration during the war, whereas in others, such as automobiles, there was almost 100% conversion. A survey of major industries reveals that supply may now be considered normal relative to demand in a great many lines (and actually excessive in a few); that it is approaching normal in others; but that in some the demand is not expected to be filled for one to several years.

Supply-Demand Balance

In measuring the extent of industrial "stabilization," the term is used in the sense of supply relative to demand, although neither can be measured with mathematical accuracy. Demand reflects not only current domestic demand and price, but also deferred demand, refilling of distribution "pipe lines," export demand, and speculative holdings such as revealed recently in food products, raw cotton, certain textile goods, automobiles, etc., often carried on bank loans.

As all of the industries are headed (if they have not already arrived) toward the normal "stabilization" of supply vs. demand, certain common trends are now becoming apparent. These include a return to more competitive conditions, narrowing profit margins, rising production costs, greater selling efforts and more liberal credit terms.

Narrowing profit margins, to which reference will be made later, do not necessarrily imply that earnings will be poor; in many cases the margins since the war have been swelled to abnormal size by temporary conditions and fortiuitous gains.

A summary of the present supply situation by major industries is given in the accompanying table. This is necessarily limited to general conditions, based upon available information as to production, shipment, retail sales, consumption, exports, new orders, stocks, etc.

A "normal" supply does not, of course, mean exactly the same as a "buyers' market" inasmuch as in some lines the present supply is very large, yet appears insufficient, as in food products today. The same applies to petroleum products, where localized shortages are caused by transportation delays. It will be seen that most of the industries now classified as "normal" are those that make consumer goods, that had relatively small reconversion problems, and that have achieved high output through quantity production methods.

Stocks of Chemicals and Rubber on Hand

(% Change, June 1946-47)

Chemicals & Oils	
Alcohol, ethyl	— 76
Alcohol, denatured	— 78
Glycerin, refined	+ 4
Superphosphate	+ 28
Sulfur	— 10
Gelatin	+ 3
Linseed oil	+ 16
Cottonseed oil	— 35
Soybean oil	— 12
Copra	+145
Rubber	
Natural	+ 88
Synthetic	+ 13
Reclaimed	+ 6
Pneumatic casings	+ 97
Inner tubes	+110

Two striking illustrations of the almost overnight return to the traditionally keen competition are small radios (including radio-phonograph combinations) and automobile tires, where prices have been slashed, trade-in allowances offered, and where the newer companies are faced with a stiff fight for survival.

Other lines facing increasing competition include jewelry, silverware, furs, cosmetics, beer, wine, distilled liquors, soft drinks, and phonograph records. Two major war industries—aircraft and shipbuilding—are making progress in scaling down their capacity and costs commensurate with probable peacetime demand.

Industries Approaching Normal

Among the industries grouped as "approaching normal" the inclusion of steel is based upon the continued heavy production rate and the improvement in delivery dates for most products, although sheets and pipe are still difficult to get and may remain so for a long time.. Likewise the nonferrous metals are in better supply, because of the heavy domestic production of copper plus duty-free foreign metal, and of heavy lead and zinc production, including increased scrap imports and release from RFC stockpiles. Delivery dates on electric motors have been shortened considerably, although copper wire is still not plentiful.

Stocks of Building Materials and Metals on Hand

(% Change, June 1946-47)

Lumber	
Southern pine	+ 35
Western pine	+ 11
West coast woods	+ 5
Flooring—oak	+ 53
Flooring—other	— 38
Softwood plywood	+ 29
Metals	
Copper, refined	— 2
Lead, refined	+ 15
Zinc, slab	— 27
Stone products	
Portland cement	+ 44
Brick, unglazed	+124
Clay sewer pipe	+ 18
Heating apparatus	
Boilers	+ 22
Radiators	— 34
Oil burners	+162

Household electrical appliances such as washing machines, vacuum cleaners, refrigerators, irons, toasters, etc., are rapidly catching up with the deferred demand as a result of record output, although products using sheet steel are still held back somewhat. Trade-in allowances on old appliances are beginning to return as an inducement to new orders, and salesmen are again ringing door bells. Failures among small dealers are on the uptrend; credits are being more carefully watched.

Textiles and clothing supplies appear to be approaching normal, despite the limited supplies available at retail, which resulted from the drastic efforts of merchants earlier this year to reduce inventories, and their delay in placing orders for fall goods. This has delayed operations back to the cloth manufacturers and thrown the clothing industry into a turmoil to produce quickly the goods for which retailers are now calling urgently. Prices on clothing for next spring are quoted tentatively 5-10% higher.

Most building materials are improving in supply as well as in quality. Lumber production is running above a year ago and is now exceeding shipments while new orders are lower. Consumers have returned to selective buying, and mill yards are holding lumber for seasoning and standard grading. Lumber producers are looking to new markets to replace those lost during the war to plastics, paper and light metals.

Where Supply Is Improving

Better paint, and more of it, is available, and the same is true of glass, hardware, tools, and stone products such as plaster, roofing, siding, insulation, etc. Pulp, paper, and container supply, though still tight, is improving steadily due to high production and the opening of new mills in the southern states.

Industries in which there is still a large unsatisfied demand are chiefly those producing machinery and heavy equipment, the manufacture of which during the war was either suspended or diverted to military uses. It is reported that the large automobile companies are still booked ahead on their low and medium-price passenger cars and trucks for twelve months or more. In view of the old age of the majority of vehicles now on the road, and the high rate at which they are being scrapped, it is predicted that not before 1950 can the popular models be bought from stock for immediate delivery. Of course, the grounds for such forecasts are subject to many changes.

Stocks of Paper and Miscellaneous Products on Hand

(% Change, June 1946-47)

Paper	
Wood pulp	+ 13
Newsprint (U. S.)	+ 27
Printing paper	+ 42
Wrapping paper	— 1
Fine paper	— 15
Waste paper	+ 6
Glass	
Glass containers	+ 83
Other glassware	+ 57
Textiles	
Rayon yarn	+ 60
Hosiery	+ 23
Beverages	
Fermented malt liquors	+ 20
Distilled spirits	+ 25
Wines	+ 9

Other types of machinery for which

there are heavy backlogs of orders are heavy electrical generators, motors, and control apparatus, agricultural implements, and special-purpose machinery—for the food, textile, printing, oil industries, etc. General-purpose industrial machinery has been hampered marketwise by the disposal of government surplus, which since the war has accounted for about three out of every four machines sold.

Where Shortages Continue

Railroads need a great deal of additional equipment, including modern locomotives, passenger cars, Pullmans, freight cars, coal and ore cars, tank cars, and refrigerator cars. Some types of office equipment —typewriters, bookkeeping machines, adding machines, calculating machines — still carry long delivery dates. Some heating, plumbing and air conditioning equipment, especially brass pipe and fittings, are still hard to get, but nevertheless improving.

In appraising the earnings prospects of companies in industries having such wide variation in their extent of "stabilization," the general trend toward narrowing profit margins, referred to above, calls for special attention. Such trends might, in fact, be completely overlooked in the usual comparison of earnings for the first half year 1937 with the corresponding period of 1946, which in the case of many companies was in no sense a "corresponding" period but one of strikes, reconversion, and material shortages resulting in negligible earnings or staggering deficits (often concealed by tax credits). Under such circumstances, a high percentage "gain" in earnings over last year is meaningless.

A much more significant measure of earnings is the trend by separate quarters, making allowance for the abnormally low earnings early in 1946, and for the abnormally high earnings later on that were inflated by the upsurge in prices combined with record business volume.

Space does not permit details by all major industries, but it needs to be emphasized that the postwar trend is quite general for relatively good total earnings to be maintained through a large volume of business—much larger than prewar—on lower profit margins.

Some industries, such as petroleum, have been exceptions, in that they have widened margins as well as increased volume. Other lines have been exceptions in the other direction, due to the squeeze in profit margins having more than offset the gain in sales volume.

Most of the merchandising lines are now passing into this phase of the cycle; the pressure upon earnings is seen in the current statements of the chain stores (although least pronounced in groceries), department stores, mail order houses, and wholesale distributors.

Narrow profit margins on large volume are not entirely a factor of weakness, inasmuch as they indicate efficient service to the public and tend to discourage new competition. Investors must realize, nevertheless, that the narrower the profit margin, the more vulnerable a business becomes to having net earnings wiped out entirely by only moderate changes over which there is little control, such as falling off in volume, a forced reduction in selling prices, or a rise in operating expenses.

In food products, for example, a group of the larger manufacturers showed a combined gain of 50% or more in the first half year 1947 over 1946. Analysis of the net profit margins computed on quarterly sales, however, shows that 8 out of 10 of the largest food processors had lower margins in the second quarter of 1947 than in the first quarter, and the combined average was down from 5.7c per dollar of sales to 3.8c. There were decreases by Beatrice Foods, Continental Baking, Corn Products, General Foods, National Biscuit, Standard Brands, Ward Baking, and Wesson Oil, and increases (from a depressed first quarter level) only by General Baking, and Pet Milk.

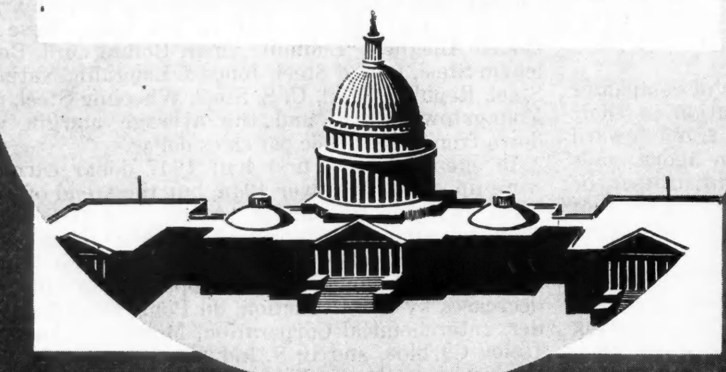
Another example is iron and steel, where the first half year 1947 earnings were 150% or more above 1946, which was unusually low. What happened in 1947, however, was that every single one of the ten largest steel companies had a lower net profit margin in the second quarter than in the first. These included Allegheny Ludlum, Amer. Rolling Mill, Bethlehem Steel, Inland Steel, Jones & Laughlin, National Steel, Republic Steel, U. S. Steel, Wheeling Steel, and Youngstown Steel, and the average margin was down from 8.6c to 6.8c per sales dollar.

In chemicals, the first half 1947 dollar earnings were up some 25% over 1946, but the trend of 1947 profit margins was mixed. Among the ten largest chemical companies reporting, there were increases from the first to second quarters by Archer-Daniel-Midland, Dow Chemical, and Koppers Company, but decreases by Air Reduction, du Pont, Hercules Powder, Interchemical Corporation, Monsanto Chemical, Union Carbide, and U. S. Industrial Chemicals, with the average down slightly from 8.9c to 8.4c per sales dollar.

Degree of Stabilization of Supply and Demand by Major Industries

Supply Normal	Supply Approaching Normal	Supply Still Short
Baking	Steel	Autos & trucks
Dairy products	Nonferrous metals	Auto parts
Meat packing		
Sugar	Cotton goods	Heating & plumbing
Food—other	Woolen goods	
	Rayon goods	Electrical machinery
Soft drinks	Clothing	
Brewing		Machinery—special
Distilled liquors	Lumber	
Wines	Pulp & paper	Office equipment
Tobacco		
	Paint	Railway equipment
Drugs, cosmetics	Soap	
Leather	Fertilizer	Farm implements
Shoes		
	Glass	Furniture
Chemicals	Stone products	
Petroleum products		
Plastics	Machinery—general	
Cement		
	Hardware & tools	
Radio	Household appliances	
Phonograph records	Watches & clocks	
Rubber tires		
Jewelry		
Furs		
Silverware		

BUSINESS
and Investment Aspects OF OUR
FOREIGN POLICY



By JOHN DANA

The complete reorganization and realignment of world affairs together with the assumption by the U.S. of world leadership following the end of World War II serves to emphasize the importance of our foreign policy — now heading for a crucial test—not only in a purely political sense but directly and indirectly in the fields of business, economics and investment.

In the past, we have made great efforts to isolate ourselves from much of the rest of the world but our traditional isolationism was cracked wide open after World War I. As a result of the latest war, we were forced to concern ourselves with the political, social and economic life of almost every part of the globe. This involvement, however inescapable, marked a definite break with tradition so far as basic policies are concerned. The world for us has become small indeed, and we have become very thoroughly concerned with its problems and happenings. We have long passed the stage of debate of acceptance of our share of world responsibility, or of the far-flung activities of our Government in fulfilling it. Needless to say, whatever political decisions on our part must ensue are bound to affect, in ever greater measure, our economy and those factors that are part of our economy.

American business has long recognized the often close relationship between political foreign policy and economic effect. The investor, too, is becoming increasingly alive to it though many still fail to realize it fully. He has of course become thoroughly aware of the importance of a flourishing export trade to our national welfare and to the welfare of companies in which he may have a financial stake. Yet some of the more subtle relationships may have escaped the attention they deserve. Thus many may not have been aware of the immense importance of foreign policy to the big oil companies with huge investments and interests in the Near East, nor of the importance of their investments to our national security. If so, they were given an object lesson only a few days ago when the shares of American oil concerns with an important stake in the Near East area declined abruptly on the New York Stock Exchange following Arab threats to rescind oil concessions if the U.S. should support a recommendation of Palestine partition made by a United Nations Commission. While the threats probably need not be taken too seriously and the entire occurrence, in retrospect, may seem trivial, it is nevertheless a wholly valid illustration of how foreign policy can affect business and investments.

Examples of major repercussions of foreign policy on American business and investments are not hard to find. Take the proposed Marshall plan, primarily a political move. It certainly is setting business men to trying to work out how much effect it would have on our economy though it may be too soon to arrive at concrete results. But all around it is realized that large scale aid of the kind suggested will have important repercussions on our home economy, on our export business, on the diverse industries and companies that stand to derive benefits or will otherwise be affected. The political motives behind this proposed program are well known; the economic repercussions may be far-flung and incisive. The same of course was true, and still is, of our aid program to Britain, of our foreign loan policies toward such countries as France, Italy and others. While the immediate object is economic help, such help in turn is recognized as a vital factor in the implementation of our foreign policy. In many areas of the world, our political counter-offensive to the Kremlin's expansionist plans will importantly include, if not solely consist of, economic measures, and these are bound to affect our economy one way or another. Almost every company actively engaged in foreign trade will feel the effects.

From a business standpoint, these measures so far have been highly stimulating; exports have been

soaring and this activity was a welcome prop to our overall economy, quite apart from other repercussions. In the future as well as in the past, one can look for a very direct relationship between, say, our Russian policy and our economic policy. By the same token, as our position and stake in world affairs grows, so will the stature of many corporations with active interests abroad. Generally speaking, the postwar world has offered American business a challenging opportunity for aggresive expansion abroad and for profitable investment in foreign productive enterprise, but in this connection particularly, political policy will always have a considerable influence on the ultimate profitability and success, or lack of it, of such undertakings. For those who disregard the hard facts of political and economic trends, or for those who put their eggs in the wrong foreign basket, there is likely to be a disappointment and loss as shifting policies, and reaction to such policies, create new and different situations.

Possible Effects

The very aid that we now furnish for the reconstruction of European countries will in time restore their competitive position to the detriment of certain of our own industries and companies. While no one questions the wisdom of our aid program as a whole—if only in our own interest—such ultimate results must be anticipated. A really effective aid program sooner or later must include tariff revisions to facilitate greater imports of foreign goods and such competition, now lacking, can hardly fail to leave its mark on certain areas of our domestic economy. To the investor, this can be no matter of indifference; if he is unfortunate in the choice of his investments, it may hit him right in the pocketbook, just as anything that will affect the flow of exports may have a significant bearing on his investments if they include the shares of companies actively catering to the foreign field. For the time being and probably for some time to come, of course, he is more likely to gain than lose but in the long run, he may find it to his advantage to watch for changing trends or, better still, for policies that may bring about a change in trends.

The much publicized "dollar shortage" has emphasized the abnormal and unstable character of the large volume of our export trade; anything that may affect this situation is therefore highly important not only to exporters but to the makers of export goods. Political decisions such as those underlying the Marshall approach asume highest importance. So does, over the longer term, our decision to build up the war-torn economies of former enemy countries. Rebuilding the German industry will ultimately mean greater competition for American manufacturers in such fields as chemicals, pharmaceuticals, textiles, machinery, surgical and dental instruments, chinaware, jewelry, optical and photographic goods. Our decision to put the Japanese economy back on a working basis will certainly imply larger American imports of ceramics, certain chemicals and pharmaceuticals, cosmetics, light bulbs, linen goods, silk, paper and paper products, toys and other things. Ultimately, the American industry in these areas must look for greater competition both at home and abroad—the direct result of our political decisions, however justified and urgent these may be.

Specific Examples

In the accompanying table, we have listed a number of companies which are vitally interested in the foreign situation. The list, by no means all-inclusive, shows concerns which, like the railroad equipment, farm equipment and other companies, do a large export business or have sizable foreign orders in prospect. It additionally shows companies, as indicated in the tabulation, with substantial properties abroad. Still others, like the shipping companies, profit largely from foreign trade and their earnings are dependent on the volume of commercial intercourse between the U.S. and foreign countries. The properties of some like Cerro de Pasco and Swift International are located exclusively outside of the United States. All of them, in one way or another, have an important stake in foreign trade and anything that affects world trade.

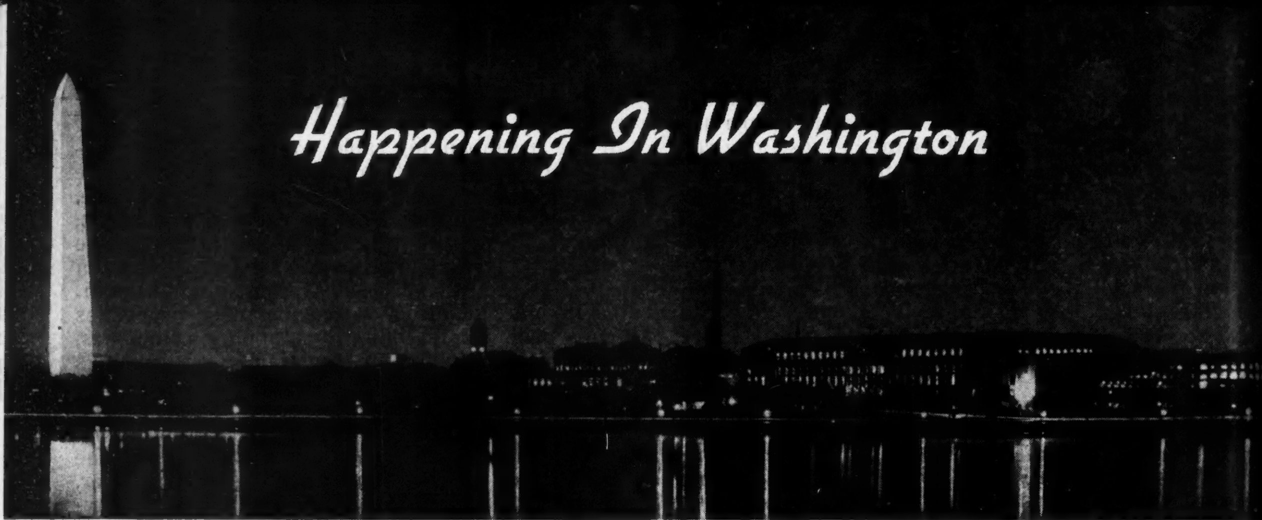
One force which can aid tremendously in world recovery is the resumption of direct investments of private capital in foreign (*Please turn to page* 54)

Company	Earnings Per Common Share Pre-war Avge. 1938-41	War Period Avge. 1942-45	Post War 1946	Current Price	Foreign Trade Factor
Amer. Car & Foundry	d$1.61(g)	$7.57(g)	$5.54(g)	44½	A
Amer. Export Lines	15.76	5.47	3.68	17	B
Amer. Locomotive	d.63	2.90	3.04	20¾	A
Anaconda Copper M.	3.12	3.51	2.75	34⅛	C
Baldwin Locomotive	1.19	3.37	2.63	16½	A
Case (J. I.) Co.	†1.90B	†2.42B	T1.07B	37	A
Cerro de Pasco Copper	2.15	1.76	1.48	30	D
Chrysler Corp.	†3.84	†2.91	†3.09T	58½	A
Colgate-Palmolive	2.64	3.05	7.14	46¼	A
Eastman Kodak	†1.67	†1.81	†2.85	43½	A
General Electric	1.58	1.71	1.49T	35¾	A
General Foods	2.74	2.36	3.25	38	A
General Motors	3.73	3.63	1.76T	57½	C
Gillette Safety Razor	.74	1.21	4.55	28⅜	C
Gulf Oil Corp.	2.31	3.84	6.42	67¼	E
Int. Business Mach.	†6.46	†7.12	13.10	215	A
Int. Harvester	3.50(b)	4.67(b)	3.91(b)	84⅞	A
Int. Petroleum	1.02	1.06	.57	10½	E
Int. Tel. & Tel.	.38	.89	d1.57	11⅞	B
Kennecott Copper	3.46	3.78	2.13	44	C
Moore McCorm. Lines	N.R.	N.R.	5.10	29⅝	B
Pantepec Oil	.09(e)	.38(e)	.71	9	E
Parke, Davis & Co.	1.74	1.53	2.73	37½	A
Pullman, Inc.	1.73	3.42	.64	52¾	A
Remington Rand, Inc.	†.62(f)	†1.20(f)	†1.51(f)	14⅛	A
Socony-Vacuum Oil	1.23	1.37	1.87	16	E
Squibb & Sons (E. R.)	†1.33(a)	†1.49(a)	3.01(a)	32¾	A
Stand. Oil (Calif.)	1.96	3.18	5.15	58⅜	E
Stand. Oil (N. J.)	3.95	4.72	6.50	73⅝	E
Sterling Drug	†3.20	†2.26	3.60	37½	A
Swift International	10.90(c)	11.37(c)	15.14(c)	22¾	D
Texas Co.	3.20	4.13	6.32	54½	E
United Fruit	†1.57	†1.61	4.51	52⅝	B
U. S. Lines	N.R.	1.24	4.92	19	B
U. S. Rubber	2.94	4.35	10.23	44	C
Westinghouse Electric	†1.43	†1.75	.65T	26⅝	A

FOREIGN TRADE FACTORS:

A—Doing large export business.
B—Important beneficiary of foreign trade.
C—Substantial property investments abroad.
D—All or most of properties located abroad.
E—Large oil properties in Near East and/or Latin America.

N.R.—Not reported. T—Includes carryback tax credit.
†—Adjusted. d—Deficit. (a)—Years ending June 30.
(b)—Years ending Oct. 31. (c)—In Argentine pesos.
(e)—On American shares. (f)—Years ending March 31.
(g)—Years ending April 30.



Happening In Washington

By E. K. T.

CONTROVERSY over whether a special session of congress should be called to stave off suffering in Europe has been intensified, rather than removed, by President Truman's call to committees to collate their findings and prepare an agenda for a possible summons to the Capital around December 1. The White House and republican spokesmen alike are seeking reasons to avoid a call. Politics-minded aides are urging the President to take the steps to dramatize the "GOP error" of wiping out OPA. Speaker Martin believes delay works in favor of added House prestige in handling foreign affairs. Both sides think December 1 is too close to regular meeting date to accomplish anything. But public pressure has been terrific, may be powerful enough to attain its end.

WASHINGTON SEES:

The State Department and economists in other branches of the government see increasing proofs that Russia is stalling off the workings of UN in the expectation, and hope, that depression will set in here and remove the single weapon the democracies are now employing in the world-wide diplomatic fight — the power of the American dollar.

No doubt exists in the higher echelon of diplomacy and the military that the Kremlin is determined to prove at Lake Success that the United States and Great Britain can be humiliated without any return other than stodgy diplomatic notes. The idea apparently is catching on among the satellites and the countries which look to Moscow for the stop and go signals.

At Trieste, it is instanced, the campaign of pushing Uncle Sam around culminated in the arrest of three United States soldiers, and the refusal of Tito's men even to permit a Member of Congress to talk with one of the soldiers, a constituent. Opinion is growing in the military establishment that the only answer is a larger garrison.

The British made only mild protest when the Albanians placed mines near Corfu, blew up an English ship, with fatalities. The blast of a United States ship is explained away as a stray mine that escaped our sweepers.

The American dollar still is a powerful force among the smaller nations. Agreement is general on Capitol Hill it must be used more freely; mainly because the lawmakers shudder at thought of the alternative.

IMPORTANT results are not expected to flow from the National Conference of Governors which considered setting up borders of taxing jurisdiction between the federal and state governments. The wisdom of re-definition is agreed upon but neither side is willing to give appreciable ground. State officials originated the idea of such a conference, yet the record shows 3.4 billion dollars less in federal taxes collected in 1946 than in 1945 while the states took in 200 million dollars more. These figures don't begin to tell the real story of taxation: 1946 overall collections were almost four times as high as they were in 1939.

WAR'S END seems still far away if federal payrolls are to be the measure. Two years after V-J Day, there still are 911,119 temporary and war service employees being paid. And occasional news stories telling of personnel reductions in named departments don't mean a thing. When one agency folds up another almost invariably gobbles up the released workers. It's based on government policy to shift the displaced employees into new or expanding departments rather than to recruit, from the outside, personnel who may be more experienced or trained in the skills for which openings arise.

TAFT PROPOSAL to push for speedy passage of social legislation in the next congress marks a major change in policy. The Ohio senator and obvious Presidential aspirant grouped relief proposals under a bill of his own sponsorship in the last session but—and this accusation comes at least as much from his own side of the senate aisle as from the democrats—he "sat on it." Taft has not toured the southern states. His last try for the Presidential nomination showed his strength was concentrated there, undoubtedly still is. So his proposal for state-controlled, federally subsidized social legislation is taken as his sop to "states rights" advocates.

As We Go To Press

Food, already dominating worldwide diplomacy, has moved in to capture the domestic scene. And the issue won't be put down; it will go sailing into the campaign under the impetus of charges and recriminations being hurled by political foes at one another.

Ironically, the very thing which accounted most for the defeat of democrats in last year's election -- the OPA -- has the republicans hanging on the ropes today. They admit it, and they would be more comfortable if Senator Robert A. Taft would give his "non political" tour a whirlwind finish and come home. While he's on the road, the GOP is a target.

Even Taft stalwarts say the Ohioan did himself more harm than good on his trip. His presence in organized labor centers and elsewhere furnished the incentive for foes of the GOP-controlled Congress to begin organizing. Greatest faux pas of the Taft trip was the careless use of pronouns. Instead of "we" must eat less, he said "they" (the general public) must eat less. And he said it over a banquet table!

The Administration was first in the field with the "eat less" suggestion. It wasn't urged, merely recommended. Now that the republicans have taken it up, the White House is ordering an all-out campaign to popularize the idea.

Food experts in the Department of Agriculture say the consumer, not legislation or propaganda, holds the answer to much of the problem. That is, if export procurement and shipments are geared realistically to what this country can spare. The rash of housewives strikes and CIO stores has already cleared and suppliers say there is plenty of squawking but very little outright refusal to pay prevailing prices.

Chester Bowles is again becoming articulate, mostly along the "I-told-you-so" line. But government agancies have picked over the skeleton of control left to them by Congress and agree there isn't enough substance left to fill any practical purpose. Meanwhile they report evidence that many items are coming off the shelves, going back under the counter.

Senators and Representatives returning from Europe are just about unanimously in favor of continuing existing export controls after Feb. 28, 1948, the present expiration date. Legislation will be introduced when Congress convened, will be rushed through to early passage.

Importance of that legislation cannot be overestimated. It's the only tool left to police even partially the prices of wheat and flour, among other commodities, to protect domestic supplies.

Differences of opinion will be found on Capitol Hill. Some influential members place exports high on the list of factors necessary to keep our economy intact. Though relatively small, they say export trade can be the mite that swings the balance. They ask, too, isnt' it good business to lend five billion dollars a year to keep U. S. exports at a twelve billion dollar level -- to preserve a going business abroad instead of encouraging a bankrupt one?

As indicated above, Washington talk still revolves about billions, not millions of dollars. That's understandable when it is remembered foreign commitments by the United States stand at 25 billion dollars. That's promises, not payments. For in-

stance, none of the $5.9 billions promised to Bretton Woods has been doled out, and the $3.5 billions in the Export-Import Bank is capitalization, not executed lendings.

Heavy fines against six American ball bearing companies and officials of two of them, were cited here as proof that the Department of Justice means business in its antitrust law enforcement drive. The companies were charged with conspiring to fix prices. Not stressed, however, is the fact that the indictments and pleas were entered 18 months ago. And that's not unusually slow for Sherman Act proceedings.

While attention centers upon the doings of the Department of Justice, overlooked is the swifter processes of the Federal Trade Commission whose aim at big business seems uncommonly true. Hearings on charges of unfair trade practice scheduled for one week in September, included such names as Sterling Drug, Inc., American Tobacco Co., Standard Brands, Inc., Cello-Plastic Chemical Co.

There's a hint here of federal legislation to limit the profits of middlemen in the building materials industry, eliminate that part of the present setup completely, if possible. Senator McCarthy of Wisconsin, who dominates the Senate-House probe of the building industry, dropped the hint he has such a measure in mind.

McCarthy faces certain defeat on another proposition. He proposes a uniform building code removing local restrictions which, he claims, are a deterrent to home construction. States and cities wouldn't be required to adopt it, but...if they don't, McCarthy would have Congress withhold from the non-cooperating community, all federal money grants for roads, airports, health and other projects.

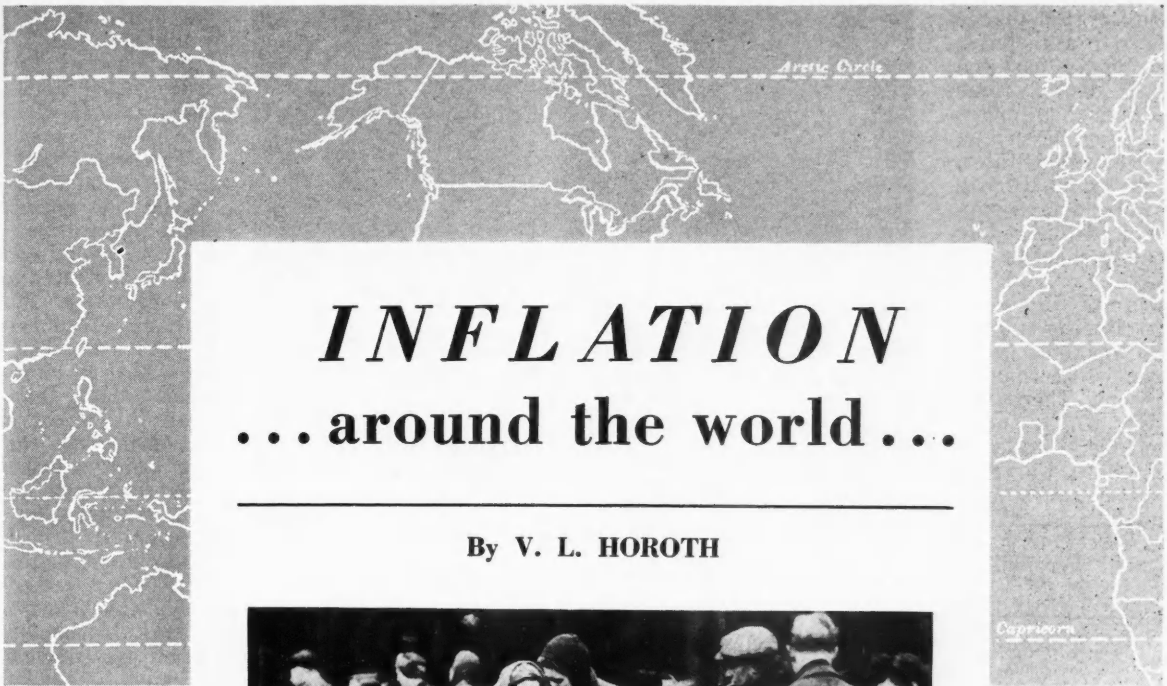
Life insurance companies are stepping up their interest in rental housing projects. A representative of Prudential, addressing the Chamber of Commerce urban conference here, described the field as rich in "stability of investment."

Heard also during the meetings was the plan of a New England insurance company, in cooperation with a large steel producer, under which the insurance company would underwrite home building projects, the steel company would guarantee an agreed yield for 10 years, and the insurance company would take its chance on the project being self-supporting after that period of time. The houses would be built on industrial plant sites, for plant workers occupancy.

Rep. John Taber, economy-minded chairman of the appropriations committee, is setting up insurance against last-minute compromises and log-rolling to get appropriation bills enacted in time. Last year, several were still in conference when the new fiscal year began. It led to added costs, some "deals" to buy off the opposition of Congressmen with pet projects.

Now in Europe, Taber has directed his staff to notify all independent agencies and depeartments to be ready for conferences on 1949 funds, by Dec. 1. They'll be called up for explanations and justifications and, Taber promises, the bills will be ready months earlier than last year's.

"Had Enough?", the devestating campaign slogan which helped rush the democrats down the road to defeat only one year ago is being dusted off by the Democratic National Committee and will be turned on the party that coined it, backed by figures on increased living cost and commentaries on the work of the republican-controlled Congress. Democratic party leaders are becoming more vocal, republicans more quiet. Optimism or the lack of it, is the reason.



INFLATION
...around the world...

By V. L. HOROTH

Photo by British Combine

Extreme inflation such as experienced in many countries throughout the world is causing poverty and untold misery. Drastic steps will be required to re-attain stability.

There is a growing conviction in this country as well as abroad, that the real obstacle to the rehabilitation of the world, and of Western Europe in particular, is not the shortage of dollars, but under-production. Communist encroachments cannot be held back by dollar loans alone. Unless foreign countries put their own houses in order and remove obstacles to increased production, the assistance contemplated under a Marshall Plan will be dissipated just as much as the loans, credits, and grants already given.

At this stage of world rehabilitation, the principal obstacle to increased production in Europe, the Far East, and even in some Latin American countries is inflationary pressure. Inflation — the lack of balance between grossly inflated purchasing power and an insufficient supply of goods — is a serious hindrance to foreign trade. It acts as a brake on exports and attracts imports. Inflation contributes substantially to the heavy drafts on monetary reserves no matter how much these are supplemented by loans and credits. Inflation is particularly vicious in combination with current collectivist practices in Europe: the planning of extravagant social reforms, the expansion of bureaucratic machines, and interference in business affairs. In such a combination, inflation leads to unbalanced production, progressive disorder and eventual stagnation. By trying to enforce fictitious values put on goods, wages, and foreign currencies, the governments usually end up by creating lack of confidence in money, by discouraging savings, and by stifling initiative to produce not only on the part of the worker, but on the part of management as well.

It was hoped, when the war ended, that the expansion in the production of consumer goods and a freer international trade would check inflationary pressures all over the world. But the opposite has happened in a great majority of countries. Huge deficits caused either by the financing of expensive socialist experiments, by food subsidies, or the rebuilding of devastated areas, have kept on creating purchasing power faster than goods could be produced. Because the governing regimes have been too weak politically and on the defensive against communism, they have in most cases failed to set up adequate tax systems to mop up the excess purchasing power.

The first of the accompanying tables shows the effect of the continuing inflationary pressure on prices and costs. Out of some 45 countries, only 10 were able to hold or lower their prices during the postwar period. In four countries at least (the United States among them), **the postwar rise of** prices was greater than the wartime rise. Despite this, the United States is one of the few countries

where the prices have risen least during the past ten years. In only four countries have prices advanced less than in the United States.

A serious drop in European food supplies during the coming months will make the lack of balance between purchasing power and available goods even worse than at present. There will have to be more controls — to make all share the general misery more equally, as it has been facetiously said — and there will be less initiative to work for money that cannot buy much more than a few rationed foods and consumer goods.

Photo by British Combine

In China, inflation has been most extreme.

The deadening effect of inflation and of the vast government apparatus to keep it under control is illustrated by the situation that has developed in Great Britain. There the wages have risen much more than the prices of rationed goods that the Labor Government is maintaining at a low level by a system of heavy government subsidies. One reason why the Government cannot get the miners to work is that the cost of rations absorbs only a small part of their earnings. Since there is little else available — except in the way of amusement and betting — leisure becomes more desirable than money.

The irony of the situation is that the British Government, although more successful than the French, the Dutch and even our American Government in keeping the prices down, has irreparably lowered the morale of the worker. Writing in the "Lloyds Bank Review," Professor J. Jewkes of the University of Manchester has this to say: "We succeeded merely in preventing the vicious upward spiral of prices at the cost of having a vicious downward spiral of productivity . . . The vicious downward productivity spiral will not be avoided by appeals to the community to work harder. It is futile to expect individuals to work harder unless each one feels that his own standard of consumption depends on his own efforts.

Wartime and Postwar Price Increases

	Type of Index	Base 1937	June 1945	June 1947	Increase Wartime	Increase Postwar
United States	W P	100	123	171	+ 23	+ 39
Canada	W P	100	124	151	+ 24	+ 22
United Kingdom	W P	100	157	175	+ 57	+ 11
Australia	W P	100	141	148	+ 41	+ 5
New Zealand	W P	100	155	156(a)	+ 55	+ 1
South Africa	W P	100	158	169	+ 58	+ 7
Argentina	W P	100	193	220	+ 93	+ 14
Bolivia	C L	100	480	619(b)	+ 380	+ 29
Brazil	C L	100	197	231 c)	+ 97	+ 17
Chile	W P	100	196	281(d)	+ 96	+ 43
Costa Rica	W P	100	188	227	+ 88	+ 21
Dominican Rep.	W P	e)	200	296	+ 100	+ 48
Cuba	C L	(f)	200	236(g)	+ 100	+ 18
Colombia	C L	100	192	244(d)	+ 92	+ 27
Mexico	W P	100	211	255	+ 111	+ 21
Peru	W P	100	220	313	+ 120	+ 42
Puerto Rico	C L	100	155	208	+ 55	+ 34
Uruguay	C L	100	137	165(h)	+ 37	+ 20
Venezuela	W P	100	144	162	+ 44	+ 13
Paraguay	C L	(f)	213	275(i)	+ 113	+ 29
Austria	C L	f)	128	239	+ 28	+ 87
Ireland	W P	100	198	207	+ 98	+ 5
Denmark	W P	100	179	193	+ 79	+ 8
France	W P	100	375	904	+ 275	+141
Italy	W P	(f)		5,310		
Netherlands	W P	100	155	249	+ 55	+ 61
Norway	W P	100	176	172	+ 76	— 2
Portugal	W P	100	233	239	+ 133	+ 3
Sweden	W P	100	173	174(d)	+ 73	+ 1
Switzerland	W P	100	199	200	+ 99	+ 1
Spain	W P	100	257	358(a)	+ 157	+ 39
Luxembourg	C L	100	223	278	+ 123	+ 25
Turkey	W P	100	434	407	+ 334	— 6
Bulgaria	W P	100	592	713(a)	+ 492	+ 20
Finland	W P	100	314	640	+ 214	+104
Czechoslovakia	W P	100	153	304	+ 53	+ 99
Hungary	W P	100		489		
Poland	C L	100	7,643	15,769	+7,543	+106
Egypt	W P	100	320	296	+ 220	— 8
Lebanon	W P	100	1,046	781	+ 946	— 25
Palestine	W P	100	283	305	+ 183	+ 8
India	W P	100	224	280	+ 124	+ 25
Japan	C L	100				
Philippines	C L	100	825	402	+ 725	— 51
Iran	C L	100	778	679 'a)	+ 678	— 13

(a)—Apr. '47. (b)—March '47. (c)—Dec. '46. (d)—May '47. 'e)—1941=100. (f)—1938=100. (g)—Oct. '46. (h)—Jan. '47. (i)—Feb. '47.

Source—Stat. Office of the United Nations.

Note: W P—Wholesale price index; C L—Cost of living index.

Loss of Confidence in France

Too much purchasing power in the home market has also interfered with British exports. Practically anything that is produced in Great Britain can be sold at home for prices as good or better than abroad. As a consequence, British exporters have not exerted themselves to sell abroad, particularly in the hard currency areas.

While the British have lost much of their will to work, they have not yet lost their confidence in their currency. In France, in contrast, the people have lost not only much of their will to work as a result of inflation, but also their confidence in the franc. While prices have been spiraling upward — they are now some 800 per cent above the 1937 level — the French Government has insisted on maintaining the franc at a fictitious value. For a while the overvaluation of the franc was undoubtedly beneficial. It attracted imports, thereby increasing the pool of goods at home. The effect should have been deflationary, had it not been for continuous heavy deficits of the French Government

that went on creating more and more purchasing power.

The overvaluation of the franc has made the gap in the French balance of payment worse than it actually might have been. Not only have the French people greatly expanded purchasing power, but everybody is anxious to buy more advantageously abroad. Under this pressure, French gold reserves have been practically dissipated. There is less than $500 million left compared with some $2,000 million when the war ended. Some $3,500 million of foreign loans and credits have been spent. Some of the dollars that we provided went into the proverbial stockings and mattresses, or bought gold in Switzerland. It is estimated that Frenchmen have between $3 and $5 billion in gold and dollars hoarded either at home or abroad.

Restoration of Confidence Essential

If further aid is not to be wasted, France, Italy, the Netherlands, Greece, and other Western European countries must restore confidence in their currencies. They must encourage the habit of saving. Once currencies are stabilized, the vast amounts of hoarded gold and dollars will come out of hiding and will render further borrowing of dollars and gold abroad unnecessary.

The first step in the restoration of confidence should be the devaluation of the currency to a level which corresponds to the real purchasing power of the currency. That may be somewhere near the present so-called free or black market rate. The second of the accompanying tables shows the gaps that exist between the official and black market rates. In some countries, in Italy, for example, the Government has already been lowering the official rate, bringing it closer to the black market rate.

However, devaluation in itself is not going to engender confidence. The stopping of inflation by eliminating budgetary deficits and, in some countries (Italy), also by fiscal reforms are absolutely necessary. There must be at least some relief from the oppressive system of controls that stifle the initiative of the worker and of management.

The trouble with this prescription is that goods must be available even if at higher prices, so that the people, to buy them, would be spurred to greater efforts. Also, a drastic monetary and fiscal reform requires considerable sacrifices from everybody, and the question is whether the present regimes in Western Europe are strong enough to ask their peoples for such sacrifices. Unless we are tactful in forcing fiscal and monetary reforms on the Western Europeans in return for our assistance, we may find ourselves dealing not with the present regimes, but their successors.

Although some months ago deflation in the United States had been regarded as "just around the corner," it was demonstrated during the past few weeks that the inflationary spiral is having another turn. Even if relatively short-lived, another spurt in prices here could have serious effects here as well as abroad. Higher food prices could easily curtail the urban population's spending for certain consumer goods at a time when the contraction of exports may affect the very same lines. Higher prices here — because of the sheer weight of the American economy — would undoubtedly exert upward pressure on prices abroad, just as it happened in the Summer of 1946 when we let our price controls go. Should this occur at a time when foreign countries are trying to stabilize their prices and currencies, such a development would be far from helpful.

A further rise in American prices would be particularly serious for Canada whose imports from us are nearly double her exports to the U.S. The Canadian trade deficit, running at present at the annual rate of about $1 billion, would get even larger. Such a development would almost certainly lead to drastic restriction of Canadian imports from this country and possibly even to the revaluation of the Canadian dollar. Since practically all Canadian industries must import something from this country, a restriction of imports could be quite serious for the Canadian economy.

Inflation in Latin America was originally brought about by external factors. The wartime excess of exports created purchasing power for which there was no outlet, since consumer goods were unobtainable. Everything else remaining equal, the fact that goods are now obtainable and that Latin American imports are about three times as heavy as before the war should have brought about deflation and a decline in prices. (*Please turn to page* 46)

Foreign Exchange Rates: Official and Black Market

In National Currencies Per U. S. Dollar		Actual Quotations Dec. 1938 Official	Actual Quotations July 1947 Official	Actual Quotations July 1947 Black	Index Dec. 1938 Official	Index July 1947 Official	Index July 1947 Black
Canada	(dollar)	1.00	1.00	1.10	100	100	110
Australia	(pound)	0.257	0.310	0.327	100	121	125
South Africa	pound)	0.205	0.248	0.285	100	121	138
Egypt	(pound)	0.200	0.242	0.330	100	121	165
Ireland	(pound)	0.205	0.248	0.310	100	121	151
Palestine	(pound)	0.205	0.248	0.313	100	121	152
Great Britain	pound)	0.205	0.248	0.345	100	121	168
France	(franc)	38	119	280	100	312	736
Belgium	(franc)	27.7	43.8	4.50	100	158	162
Netherlands	(guilder)	1.84	2.65	5.50	100	144	298
Norway	(krone)	4.26	4.96	7.00	100	116	164
Denmark	(krone)	4.80	4.80	7.00	100	100	145
Sweden	(krona)	4.51	3.60	4.00	100	86	95
Switzerland	franc)	4.42	4.30	3.80	100	97	86
Spain	(peseta)	11.0	11.0	33.0	100	100	300
Portugal	(escudo)	23.5	25.0	25.0	100	106	106
Finland	(markka)	49	135	380	100	278	780
Czechoslovakia	koruna)	29.3	50	120	100	171	410
Poland	(zloty)	5.3	100	1000	100	1,886	18,860
Italy	(lira)	19	225	700	100	1,183	3,680
Roumania	(leu)	137	650,000	3,000,000	100		
Argentina	(peso)	4.40	4.10	4.70	100	93	107
Uruguay	(peso)	2.80	1.80	2.00	100	64	71
Peru	(sol)	4.9	6.5	16.0	100	135	330
Brazil	(cruzeiro)	17.1	19.4	21.0	100	114	123
Ecuador	sucre)	14.5	13.5	18.0	100	93	125
Colombia	(peso)	1.75	1.75	2.40	100	100	135
Chile	(peso)	32.0	32.0	54.0	100	100	168
Mexico	(peso)	5.0	5.0	5.5	100	100	110

Sources: League of Nations; Money & Banking Supplement.
For black market quotations: Grussi Co. Monthly Letters, newspaper reports and others.

★ ★ ★

CONVERTIBLE PREFERREDS

AS INVESTMENT HEDGES IN TODAY'S MARKET

By STANLEY DEVLIN

Under today's uncertain economic and market conditions, many investors are puzzled how to employ their funds with relative safety, a fair yield and yet without undue sacrifice of appreciation potentials. We have purposely listed these three objectives in the order given, to indicate the importance generally accorded to them by the special group of investors we have in mind. Quite evidently such investors, while distrusting the stability of good common stocks for the medium term pull, are reluctant to surrender the opportunities they provide for possible price enhancement later on. As one way out of the dilemma, we suggest that they examine the opportunities offered by good grade convertible preferred stocks.

A well assured income from many convertible preference issues, relatively modest as it might appear at a time like the present when yields from equities are more inviting, may be more desirable than that from prime bonds or none at all. Ownership of carefully selected convertible senior stocks holds the additional attraction of potential enhancement in price, without regard for the yield factor, should the common stocks for which they may be exchanged develop a price uptrend. Conversely, in the event of a major decline of prices for common stocks, the yield factor tends to militate against a correspondingly serious drop in price. In other words, while convertible preferreds can and do exhibit a certain degree of volatility, the rate of income from them serves to place a floor upon their prices, although theoretically at least, no ceiling exists on the up side. In times of general market uncertainty, this would seem to be a decided advantage, at least balancing the relatively greater appreciation potentials of common stocks. All said, while there are divergent opinions as to the desirability of convertible preferreds as a medium for long term investment, it must be conceded that to bridge over a period such as the present one, until the economic air clears, there is much to be said in their favor.

Another factor, too, lends timeliness to the consideration of convertible preference stocks. The process of making wise selections in this special medium involves far more complexities than in the case of ordinary preferreds, a matter that we will presently point out in greater detail. One of these factors, though, deserves special stress for its adverse features have been ameliorated considerably during the past several years. Most of the preferreds are redeemable at a fixed call price; still we find that this is often exceeded by the market price. Frequently this implies a definite gamble that the preferred will not be called. As an example, if the senior issue can be retired at any time at 105, yet is selling at 120, perhaps with no immediate convertible advantage, its holders stand to lose $15 per share if it is redeemed. Should it be possible to convert into the common, of course, the loss would be restricted to the difference between the market price for the preferred and its parity with the common. Speculative influences often create a premium for the senior issue compared with parity. During the easy money markets of the past few years, a great wave of refunding higher rate preferreds with lower rate issues has resulted in widespread redemptions of the senior issues at original call prices. As matters stand now, though, so many concerns have revised their capital structures with low-dividend preferreds, that the risk of further redemptions appears much eased. In this respect, buyers of the convertibles today have less to worry about than a few years ago, although the hazard has not been entirely eliminated.

Conversion Terms Important

Aside from consideration of redemption possibilities, the conversion terms deserve the closest scrutiny. The privilege of conversion itself often will be found to terminate at such an early date as to negate, or minimize at least, the speculative factor. Then again, the date when conversion may become feasible may be so distant as to render the conversion privilege virtually valueless. Often, the terms of conversion change from time to time, necessitating frequent reappraisal of its merits. Considering that all the usual care must be taken in studying the ordinary investment fundamentals, such as factors of industry, the company's financial status, earnings and record, not to mention yield upon the preference shares, it will be realized that the selection of a

desirable convertible issue is by no means as simple as it might seem at first thought.

Tied in with all the other forms of analysis discussed is the transcendent one of speculative potentials for the equities into which the preferred is convertible at one time or another. The number of shares involved, their relative par values, is one thing, but more important is the possible future price performance of the common, based upon earnings and dividend prospects rather than on technical stock market considerations. It is here that potentials for price appreciation in the senior issue rest, all other things equal. In effect, any study of convertible preferreds must include an intelligent appraisal of equity issue as well.

To assist our readers to whom the medium under discussion seems to offer an answer to their current investment problems, either in providing an outlet for idle funds or a hedge against current uncertainties by temporarily shifting holdings from common stocks into convertible preferreds, we append a statistical summary of issues selected for their **sound fundamentals and appreciation potentials.** In making our choice from quite a sizable list, we have attempted to narrow the number of preferreds to issues not too far removed from conversion parity. To put it another way, we have omitted issues where the status of the common in relation to the preferred indicates a long wait before the conversion privilege could become of value. Also, our aim has been to choose senior issues offering safe and reasonably satisfactory yield, a long term opportunity in which to exercise the conversion privilege, and above average growth prospects for the company.

An Example

To illustrate some of the various influencing factors we have been discussing, take the $3.50 convertible second preferred stock of Burlington Mills Corporation. This largest producer of rayon fabrics in the United States has experienced about a five-fold expansion in volume during the past decade, and current operations are on a peak level. Earnings gains, though not spectacular, have been consistent. Though ranking prior to the second preferred are $15 million term debentures and 200,000 shares of first preferred, net earnings applicable to the junior preference shares are ample to justify confidence in dividend stability. During the nine months ended June 30, 1947 earnings equalled $177.63 per share. At a recent price of 90, the yield of 3.9% seems certain of dependability. At any time between now and March 1, 1951 this preferred stock may be converted into four common shares, and thereafter into 3.6 shares. As the common is presently selling around 19, the parity price for an exchange would thus be 76 at the moment. When the common shares sold at their 1947 peak of 22 earlier in the year, the parity price was 88 and at that time the price of the convertible preferred rose to 100, showing that investors were willing to pay 12 points premium for the conversion privilege. During the bull market in the spring of 1946, when the common rose to 26⅞, the convertible preferred responded with a spurt to 119¾, at which price the yield was less than 3%, and the parity price 107½. But When the common declined to its 1947 low of 14 to establish a parity price of 56, the preferred refused to go below

Statistical Summary of Ten Attractive Convertible Preferred Stocks

	Recent Price Preferred	Recent Price Common	Conversion Rate*	Present Conversion Point†	Dividend Yield	Call Price	Par Value	Earnings per Preferred Share 1945	Earnings per Preferred Share 1946	Earnings per Preferred Share 1947 Interim
Atlantic Refining $4.00 "A"	$112	$ 34	2.22	$50.50	3.5%	$105(a)	$100	$10.20	$38.53	$12.59 Je6
Burlington Mills $3.50, 2nd	90	19	4.	22.50	3.9	106(b)	100	......	122.53	177.63 Je9
Canada Dry $4.25	122	16	7.5	16.37	3.5	105	No	30.92	45.05	30.99 Je9
Carrier Corp. $2.00	42	19	1.6	26.25	4.8	53	50	......	1.76	19.95 Jl12
Commercial Credit $3.60	108	45	1.75	62.00	3.4	106(c)	100	20.13	19.45	13.23 Je6
Crown Zellerbach $4.00, 2nd	118	31	3.75	31.50	3.4	106½	No	......	36.26	120.13 Ap
Dow Chemical $3.25, 2nd	103	38	2.10	49.05	3.2	105½	No	......	......	......
Kimberly Clark $4.00, 2nd	109	24	4.	27.25	3.7	104½	100	......	54.34	50.21 Je6
Reynolds Metals $5.50	105	23	3.09	34.00	5.2	107½	100	87.92	107.68	59.41 Je6
United Wallpaper $2.00	45	7	4.	11.25	4.5	52½(e)	50	......	18.99	37.48 Mr9

(a)—Shares may not be redeemed before August 1, 1948.

(b)—Until April 1, 1948; thereafter and until April 1, 1949, call price will be 105½.

(c)—Beginning October 1, 1948.

(e)—Until April 15, 1948; thereafter and until April 15, 1949, callable at 52.

*—Number of common shares into which one share of preferred may be converted.

†—Point at which common would have to sell before conversion would be profitable, based on preferred price.

Je6—For 6 months ended June 30.

Je9—For 9 months ended June 30.

Mr9—For 9 months ended March 31.

Jl12—For 12 months ended July 31.

Ap—For fiscal year ended April 30, 1947.

80 in its sympathetic drop, because of considerations of yield.

We have cited the price experiences above, as they broadly illustrate what sometimes happens in varying markets, and highlight some of the pros and cons for similar issues. The redemption prices for Burlington second preferred are set at 106 until April 1, 1948 and at 105½ between that date and April 1, 1949. If the shares were bought at a recent price of 90, accordingly, the holder would receive a tidy profit in the event of a call, but a loss of about 12 points would have occurred had they been redeemed some 16 months ago. As Burlington common shares have considerable leverage due to the large amounts of senior securities ahead of them, their speculative potentials are considerable, thus lending appeal to the convertible preferred. With net earnings applicable to the common equalling $5.01 per share for the nine months ended June 28, 1947, their recent price of 19 leaves ample room for improvement under more auspicious market conditions.

Kimberley Clark $4 Preferred

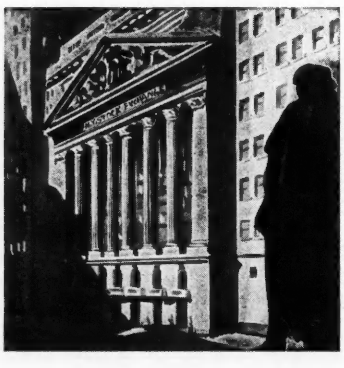
Another interesting convertible second preferred issue is that of Kimberly Clark Corporation. This 4% cumulative stock is currently selling around 109, yielding 3.7%. Less than a year ago these shares were issued to provide this prominent producer of white paper with funds for expansion of facilities. Upon 30 days notice, the stock is redeemable at a sliding scale of prices beginning with 104.50 per share through January 1, 1950 and with a low limit of 101.50 after 1956. In relation to potential net earnings and dividends, the common shares seem conservatively priced at present, a recent quotation being around 24. For twelve years past, the common has paid dividends without a break, and on the basis of the current 35 cents per share quarterly dividend, the yield at present is 5.8%. During the 12 months ended June 30, 1947, net earnings applicable to the second preferred were $85.28 per share and $4.84 on the common, indicating assurance of dividend stability for both issues and potentials for more liberal treatment of the common shareholders.

At any time prior to redemption of the senior issue, conversion into four share of common is permissible. This means a parity price of 96 for the preferred at current quotations for the common. While the market price for the preferred of 109 might seem a bit high, it should be realized that more than once during the past five years, the price for the common has been around 30, which would have pushed the parity price up to 120 had the convertible preferred been in existence. True, the price for the preferred is now slightly above its call figure, but it is very unlikely that the stock will be retired in any other way than through conversions.

It will be noted from the table that we have included several issues of second preferred convertibles. The speculative appeal attached to issues of this kind by the conversion feature has made them saleable upon attractive terms, both to the issuer and the investing public, under existing conditions. One of the latest stocks of this class to appear on the market was an issue of 400,000 shares of the Dow Chemical Company $3.25 second convertible preferred. Until July 14, 1957, holders of this stock may exchange them on a basis of 1 preferred share for 2.1 shares of common, provided the senior issue is not previously redeemed. Through July 15, 1950, the redemption price will be 105.50, or 2½ points above the current market price of 103. Thereafter the shares are subject to redemption at 104 through 1953, and subsequently at 102.50. Against a recent price of 38 for the common, the parity point of conversion would be around 49. As the shares sold very close to this figure earlier in 1947 and above it in 1946, it would not take much for them to equal or exceed this level over the medium term. After allowance for fixed charges and dividends on a prior issue of 4% preferred, net available for dividends upon the second preferred is estimated at around nine times the required amount, based on reports for the year ended May 31, 1947.

As for the common shares, the heavy leverage afforded by substantial issues of senior securities should serve to maintain sizable per share earnings, if the current prosperity of Dow continues. Confidence of the management in the outlook is shown by declaration of a $1 common dividend last July against a previous rate of 75 cents quarterly, prior to the 4 for 1 split. On the new shares a quarterly rate of 25 cents per share has been established. As this concern has always enjoyed marked growth characteristics and has maintained a good earnings record, its common shares have rather strong potentials for eventual appreciation. This promising outlook accounts for the present willingness of new holders of the convertible second preferred to content themselves with a modest yield of 3.2% in buying the shares at the recent price of 103.

Of industries that seem to face a prolonged period of prosperity, top place probably may be accorded the producers of petroleum products. Should investor preference run strongly in that direction, it might be well to study the fundamentals of Atlantic Refining Company $4 cumulative and convertible preferred, Series A. As this concern has established a twenty years' record of uninterrupted dividends on its common stock, there is small room for worry on the score of dividend stability for its senior issues. At 112, this preferred yields 3.5%. After July 31, 1948, though, this issues becomes redeemable upon 30 days notice at 105 and accrued dividends. While it is conceivable that under favorable market conditions the stock could be refunded at a slightly lower rate, the potential advantages would seem too slim to warrant the expense involved. In any event, barring redemption, the shares are convertible at any time into common on a basis of $45 per share. At the current price of 112 for the preferred, accordingly, the common shares would have to sell at $50.50 to make conversion feasible without loss.

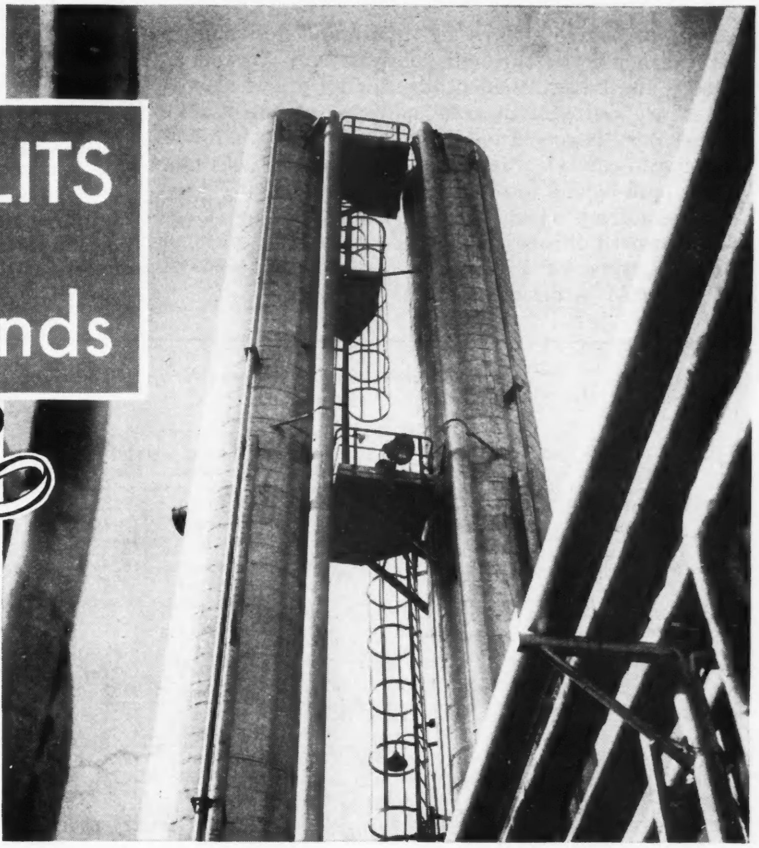


A 1946 high of 51½ shows that this goal is not impossible to achieve, especially in view of the highly favorable earnings

(*Continued on page* 54)

STOCK SPLITS AND Growth Trends

By
GEORGE W. MATHIS



Capitalizing growth through stock split-ups is a sound procedure, and repeated split-ups are an excellent measure in identifying growth stocks

Stock split-ups, at flood tide in 1946, have continued this year at a fairly steady though far lesser rate and more will undoubtedly be announced as time goes on, but the crest of the flood is definitely past. As against over 200 split-ups last year, such "subdivisions of units of equity ownership" (this is what split-ups really are) so far this year number considerably less than 100. Last year's "split-up craze" which at its height became one of the bull market absurdities, has given way to a more sober approach, on part of both managements and investors. Naturally, market conditions had a great deal to do with this change of attitude. Split shares, like all shares, do better in bull markets than in bear markets, and market action has been a significant consideration in the ordering of a good many split-ups last year.

By and large, the trend towards split-ups was unquestionably overdone, at least in a good many instances, and market action has increasingly reflected this. In the course of last year, one could hardly have failed to observe how split-ups gradually lost a good deal of their price-stimulating effect. In 1945 and early in 1946, virtually every split-up was followed by the sub-divided shares selling at higher prices than the equivalent shares from which they originated. But by the middle of 1946, stocks ceased to respond bullishly to split-up announcements; still later some actually declined on such news.

Not so long ago, a good many people assumed that a stock split is bullish in itself, a thoroughly fallacious theory, and bought stocks "to get the split." Fortunately there is now much wider realization that there is no such thing as getting something for nothing, through a split-up. Thus while it is incontrovertible that a stock split results in wider distribution of shares and improved marketability, there is considerable question whether such action, in the long run, really has a salutary effect on price. The evidence argues both ways as far as more recent splits are concerned. Longer term price action of course is another matter, depending a good deal on the motive behind the split-up.

Of common stocks in which splits have taken effect this year, holders of relatively few have realized price appreciation. Examples would include such stocks as Clark Equipment, Johns-Manville, Central Violeta Sugar, Chrysler and a few others. Some have hovered around their pre-split price, such as National Container and United Biscuit. The majority, however have declined, some materially so, including such well-known equities as Dow Chemical, Eastman Kodak, Spencer Kellogg, Endicott Johnson and Remington Rand. This of course is only a relatively small sample; many more could be added to either category. Consideration of this evidence must however be tempered by the realization that the market as a whole is below the level of the various splits. While this tends to minimize the declines that have occurred, conversely it adds to the price appreciation where such has been realized.

Managements have had many objectives in ordering split-ups, but almost every one of them has been in some way related to the price of the stock. Some splits have been well justified; for others there has

been little or no logic, especially in the low-priced category.

It is of course always legitimate and desirable to capitalize growth through split-ups and stock dividends. The latter, incidentally, for all practical purposes are quite similar to split-ups as far as the stockholder is concerned. It involves the transfer of surplus to capital, whereas a stock split-up does not. Since both belong to the equity holder, the difference is immaterial. Without doubt, capitalizing long-term growth through split-ups represents the most justified type of recapitalization, of which more will be said in detail later on.

To some extent it is also desirable to have a stock sell at a price where it will better fit investors' pocket books, and thus obtain wider distribution. Frequently incidental to such a desire may be the intention to accomplish new financing or the necessity to distribute large blocks of stock held in family estates. Often, too, management may simply want to provide a better market for their shares. This certainly has been a legitimate reason in a good many instances. A stock can be in a price bracket high enough to make the average investor feel that he "cannot afford it." To overcome this factor which makes for thin markets, stock splits have often been resorted to and usually had the desired result.

Capitalization of Long Term Growth Through Repeated Stock Splits

Companies	Price Before Split-Up	Subsequent Capital Changes Split-Ups	Date	One Share of Stock Before Split-Ups Now Equals	Recent Market Price	Equivalent Price on Old Stock If There Had Been No Split-Ups	Annual Sales (in millions) 1935	1946
Abbott Laboratories	58	Split 3 for 1 Split 3 for 1 Split 2 for 1	1935 1936 1946	18 shares	76	$1,368	$6,118	$54,209
Bliss & Laughlin	23	Split 10 for 1 Split 3 for 1 Split 2 for 1	1929 1935 1946	60 shares	16	940	1,183	3,414
Burlington Mills	48	Split 2 for 1 Split 2 for 1	1945 1946	4 shares	19	76	1,671	141,544
Federal Mogul Corp.	19	Split 3 for 2 Split 2 for 1	1939 1947	3.50 shares	19	66	3,598	21,570
General Electric	320	Split 4 for 1 Split 4 for 1	1926 1930	16 shares	36	720	208,733	679,078
W. F. Hall Printing	28	Split 4 for 1 Split 2 for 1 Split 2 for 1	1928 1937 1946	16 shares	15	240	**11,833	23,867
Hercules Powder	145	Split 4 for 1 Split 2 for 1 Split 2 for 1	1922 1937 1946	16 shares	52	832	29,669	100,727
Heyden Chemical Corp.	75	Split 4 for 1 Split 2½ for 1	1943 1946	10 shares	21	210	***3,998	18,857
Industrial Rayon	78	Split 3 for 1 Split 2 for 1	1934 1946	6 shares	43	258	8,053	39,058
International Business Machines	118	20% Stock Div. in Split 3 for 1 Split 5 for 4	1925 1926* 1946	8.91 shares	213	1,897	21,863	119,418
Monsanto Chemical	37	Split 1½ for 1 Split 2 for 1 Split 2 for 1 Split 3 for 1	1927 1929 1934 1946	18 shares	60	1,080	24,705	99,590
Murphy (G. C.) Co.	150	Split 9 for 1 Split 3 for 1 Split 4 for 1	1927 1936 1946	108 shares	37	3,996	31,597	110,327
Powdrell & Alexander	23	Split 4 for 1 Split 2 for 1	1936 1946	8 shares	13	104	4,307	20,574
Schenley Distillers	40	Split 3 for 2 Split 4 for 3 Split 10 for 7	1944 1945 1946	2.86 shares	34	97	63,045	643,867
Sears Roebuck	58	Split 4 for 1 Split 4 for 1	1926 1945*	18.03 shares	37	667	318,060	1,045,258
Square D Co.	39⅞	Split 3 for 1 Split 3 for 1	1936 1946	9 shares	16	144	***7,708	29,154
Sunshine Biscuit	152	Split 4 for 1 25% Stock Div. in Split 2 for 1	1927 1927 1946	10 shares	38	380	36,896	76,328
United Fruit	196	Split 2 for 1 Split 2½ for 1 Split 3 for 1	1921 1926 1946	15 shares	53	795	****13,200	55,385
United Merchants & Manufacturers	52	Split 2 for 1 Split 3 for 1	1945 1946	6 shares	15	90	34,421	129,831
Waker (Hiram) Gooderham & Worts	82½	Split 3 for 1 Split 4 for 1	1929 1946	12 shares	20	240	45,353	266,845

*—Also numerous stock dividends.
**—1937 Annual Sales—None reported previously.
***—1938 Annual Sales—None reported previously.
****—Total Income less depreciation.

There may be other incentives to stock splits which in the eyes of many carry less justification. In times of lush earnings such as the present, there is an understandable desire by management to distract public attention from large per share profits which might readily lead to wage demands or criticism of product selling prices. A good many stock split decisions last year were made on this premise by companies whose earnings have been "embarrassingly" high. But in the long run, with profits declining to more normal levels, this may not prove a very good decision, especially where high earnings have been largely due to non-recurrent factors.

Desire for Higher Market Appraisal

Lastly, some splits have undoubtedly been due to management desire for a higher market appraisal of a company, though needless to say, such action could not possibly have changed the essential values back of a stock. Yet it could be done as long as the market reacted bullishly to stock split announcements, as it did last year. But for the present, the time is gone when it is worthwhile to undertake splits merely for the sake of exploiting temporary conditions. The wisdom of such action has always been open to question.

The fact that more recently, chiefly better type stocks have been split is due not only to changed market conditions but importantly also to the action last year of the New York Stock Exchange in warning against sub-division of stocks of a more speculative nature. The present market has not prevented action by a number of companies to split their stock; significantly, however, the roster includes a number of issues with long dividend records such as Beech Nut Packing, Eastman Kodak, Johnson & Johnson, John Morrell & Co., Cleveland Graphite Bronze and Houston Lighting & Power. Splitting up the shares of such concerns must be regarded as a healthy trend, for it brings them into the reach of the small investor, creates wider stock ownership and improves marketability. It is here where the investor may profitably look for growth situations.

Stock Splits Reflecting Growth

As indicated before, there is one type of stock split to which the investor can hardly take exception,—that is the sub-division of shares where such action chiefly reflects long-term growth of business. In fact, the record shows that more than one split over a period of years is an excellent measure in identifying "growth stocks" from other split shares. In such instances, the question now often asked: After the split, what? can safely be left to the future. For the question of market price, while always subject to fluctuations and the unexpected, in the long run at least will invariably and satisfactorily take care of itself.

To demonstrate this, we have compiled a tabulation containing a selected group of stocks which have been split up more than once over a period of years. These splits have been more than justified because of the remarkable growth the companies have sustained. Their gain in overall stature, in business volume and earnings has not only proved the wisdom and justification of repeated splits but also confirms the practicability of this particular yardstick to identify growth stocks.

A glance at our table readily shows to what unusual heights the price of most shares would have

Recently Split-Up Stocks with Growth Potentials

	Recent Price	Split	Equiv. Price	Pre-Split Price	Points Change
American Chicle	51	3 for 1	153	160	— 7
Beech-Nut Packing	31⅝	3½ for 1	110⅝	112	— 1⅜
Chrysler Corp.	58½	2 for 1	117	114	+ 3
Clark Equipment	28½	2 for 1	57	49	+ 8
Cleveland Graph. Bronze	31½	2 for 1	63	66	— 3
Colonial Mills	19¼	2 for 1	38½	27½	+11
Dow Chemical	37½	4 for 1	150	166	—16
Eastman Kodak	43½	5 for 1	217½	240	—22½
Endicott Johnson	32⅛	2 for 1	65	73	— 8
Johns Manville	41	3 for 1	133	112	+21
Lion Oil	25½	2 for 1	51	55	— 4
National Container	14	3 for 1	42	42	......
Remington Rand	15	2 for 1	30	34	— 4
Sherwin Williams	69½	2 for 1	139	141½	— 2½
Spencer Kellogg	26	2 for 1	52	58	— 6
Sun Oil	56	6 for 5	67	74	— 7
United Biscuit	19	2 for 1	38	38	......
United Carbon	31	2 for 1	62	61	+ 1

risen, at least theoretically, had there been no splits. It does illustrate in very concrete manner how extremely well a long term investor in these shares has, or would have, fared.

An Interesting Example

Some interesting examples may be cited. Take, for instance, Abbott Laboratories which back in 1935, before the first split-up, sold at 58. The stock subsequently was split three times, the last split occurring in 1946. As a result, each share held before the first split now equals 18 shares, currently selling around 76. Had there been no splits, and had the old stock behaved exactly as the split shares subsequently did, its current price would be around $1,368 a share. This in fact is the current market value of the 18 shares which a holder of one old pre-1935 share now owns if he has held his investment through the 1935-46 period.

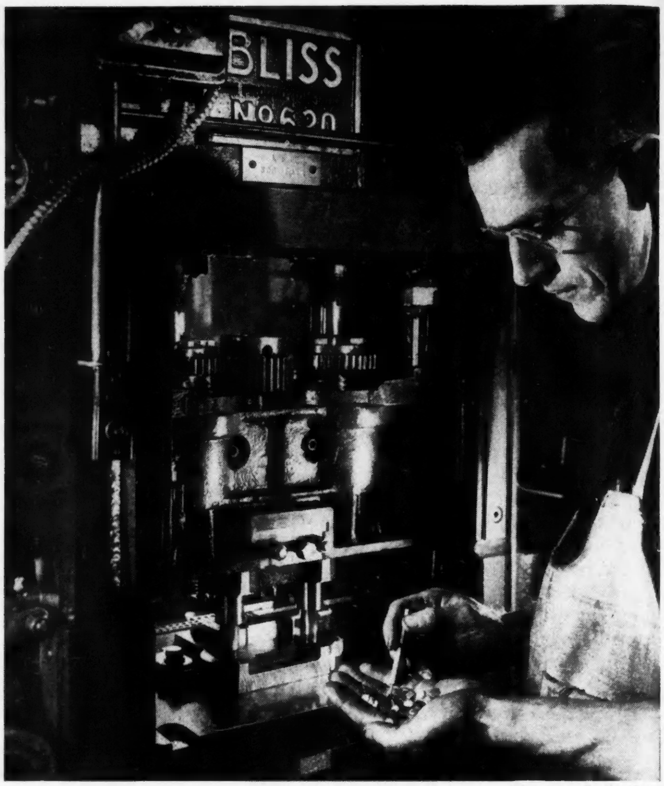
Murphy (G.C.) Co. stock offers an even more extreme example. Before the first split in 1927, it sold at around 150. Through three split-ups, each share originally held would now equal 108 shares. At current price of 37, they have a combined value of $3,996. There could be no more glaring example of the profitability of long term investment in genuine growth companies.

Similarly, stocks like Bliss & Laughlin, General Electric, Hercules Powder, International Business Machines, Monsanto Chemical and Sears Roebuck would likewise be selling at absurdly high levels but for the stock split-ups effected from time to time. Of these, International Business Machines furnishes a particularly interesting example. Apart from numerous small stock dividends, a 20% stock dividend was paid in 1925; a three for one split was effected in 1926 and a five for four split in 1946. Prior to the 1925 stock dividend, the common sold at 118. Today's market price is around 213. But for each share held before the 1925 stock dividend, a long-term investor would now have 8.91 shares which at current market price have a value of $1,897. I.B.M.'s enormous growth was significantly due to reinvestment of earnings in machinery leased on a royalty basis. Stock dividends and occasional splits proved the best way of capitalizing the tremendous progress of the company.

(Please turn to page 48)

Investment Audit OF E.W. BLISS COMPANY

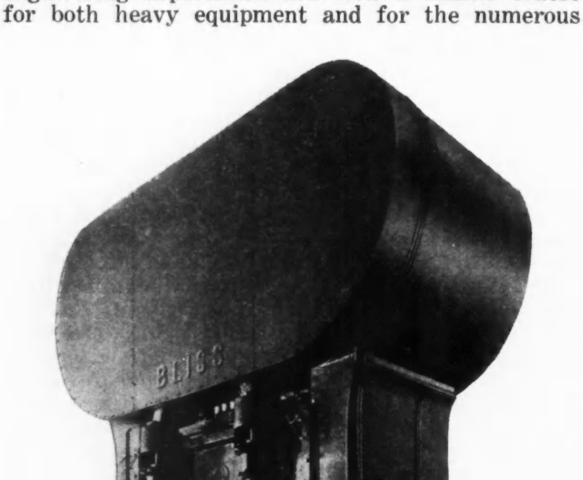
By H. S. COFFIN



Photos by E. W. Bliss

Machines by Bliss have won world-wide recognition. Demand for them, from the smaller units shown above to the giant stamping presses pictured below.

As world leader in the production of heavy machinery to form all kinds of metals for further processing, E. W. Bliss Company occupies a vitally important position in the industry. Upon the speed and accuracy with which every manufacturer of durables can turn out his products rests his basic hope for profits under the impact of modern competition. With wage costs and outlays for materials at constantly rising levels, while workers demand shorter hours and less effort, maintenance of fair profit margins seems possible only through increased machine efficiency. Hence under current conditions, it is not surprising that the 97 years' experience of this concern's mechanical engineering department has won it sizable orders for both heavy equipment and for the numerous types of smaller machines which diversify its output. Seemingly the company has entered upon a period that, barring the unexpected, may prove to be one of the busiest and most constructive in its long career, and of material benefit both to company and shareholders. For this reason, closer examination of this concern's financial status, operational results and prospects may prove interesting to many of our readers.



The machinery industry, as every one knows, is strongly lacking in fundamental stability, and heavy equipment makers particularly are sensitive to the cyclical ups and downs characteristic of our economy. The long pre-war record of even such a dominant factor as the Bliss Company shows this conclusively. Volatility of sales and earnings from year to year has been a strong characteristic, and aside from longer periods when results were consistently excellent, as since the beginning of the war, it must be anticipated that in due course any business of this kind must have less prosperous periods as well. From an overall viewpoint, however, recognition should be accorded to the vitality and long term growth of this strong concern. its proven ability to forge ahead with new and improved products and reinforce its financial structure through all the major economic upsets that have occurred during the past century. In gauging the investment or speculative merits of its shares, accordingly, the company's average performance is a far better criterion than either the highs or the lows of its long record, thus earnings, dividends and share prices must be evaluated on this basis rather than by

stressing any specific period of outstanding results. We will amplify on this subject later on.

Under current conditions, E. W. Bliss and Company is operating under unusually favorable circumstances, with an ample backlog of relatively firm orders to assure capacity output for the balance of 1947 and well into next year. By the middle of 1946, the expansion program at Hastings, where one of seven main plants is located, had been completed. Through expenditures of a little more than $1 million last year for total improvements and additions, the way was paved for steadily increased output during 1947. As specialists in designing labor saving machinery for others, it will be realized that Bliss has been in a particularly favorable position to shave costs for itself, too, in providing the most up-to-date equipment and methods its technicians could devise. For example, the Salem plant has been fully equipped with a new shop devoted exclusively to the production of weldments needed by the company's other shops that turn out presses. This step not only lent added attraction to the final products but contributed to cost savings. More importantly from the standpoint of profit margins, deliveries of medium and large size presses have been substantially stepped up through this improvement in operating programs.

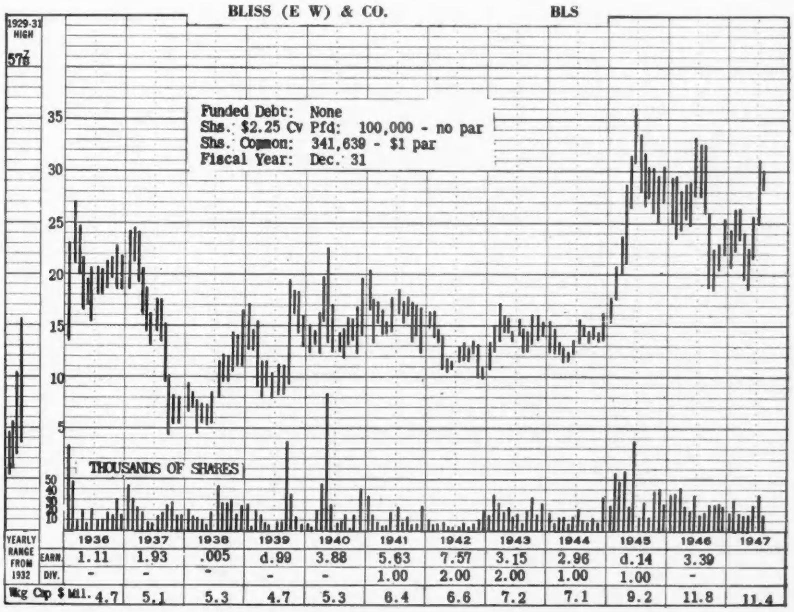
The above is of special significance when it is realized that production of powerful and speedy metal presses is the mainstay of Bliss sales. In the mass production of everything from automobiles, refrigerators, radio cabinets down to the many small parts of a typewriter, the forming of metal from sheets, strips, bars or even wire, is a basic requirement. Last year, when the automobile industry was tooling up on a huge scale, some 50% of Bliss presses went to car manufacturers, some to stamp out a complete automobile top in a single stroke or to turn out side panels in an 800 ton triple action press. Doors, fenders, chassis, wheels and hub caps emerge in precision form from similar gigantic machines made by Bliss. When Bliss technicians succeed in redesigning one of these monster machines to combine one or more operations formerly effected separately, or to speed up output in other ways, it can be envisaged that especially when general business is active and competition rife, orders readily flow in.

By mid-1947, though, only about 30% of Bliss presses were going to the automobile manufacturers, for as the company's production expanded, a wider range of durable goods makers were receiving deliveries. But when Detroit is forced to retool for new models next year, the proportion allotted to them may have to be increased. Bliss also is by far the largest supplier of rapid fire machinery to the producers of metal containers, and the bright prospects for can manufacturers provide an excellent market for this type of equipment. Currently they can buy a late model Bliss machine that will automatically stamp out 300 cans per minute, incidentally testing each one for air-tightness. In the typewriter industry, a new Bliss machine is being used to produce a small but complex stamping at the rate of 550 pieces a minute. These few examples constitute but a fraction of the potentials inherent in the wide range of markets which this concern exploits, and the vital part it plays in producing labor-saving, and thereby cost-saving equipment for industry as a whole. As long as national production continues at or near its present pace, new or replacement orders for the varied equipment offered by Bliss should continue to keep them exceptionally busy.

One other field deserves special mention. To meet

Comparative Balance Sheet Data

	Dec. 31, 1939	June 30, 1947	Change
ASSETS	(000 omitted)		
Cash	$ 1,756	$ 4,545	+$ 2,789
Receivables, net	1,449	3,954	+ 2,505
Inventories	3,227	8,519	+ 5,292
TOTAL CURRENT ASSETS	6,432	17,018	+ 10,586
Plant and equipment	14,626	14,497	— 129
Less depreciation	9,785	9,674	— 111
Net property	4,841	4,823	— 18
Other assets	1,603	280	— 1,323
TOTAL ASSETS	$12,876	$22,121	+$ 9,245
LIABILITIES			
Notes payable	$ 200		—$ 200
Accounts payable and accruals	1,209	$ 2,314	+ 1,105
Reserve for taxes	177	2,400	+ 2,223
Other current liabilities	105	816	+ 711
TOTAL CURRENT LIABILITIES	1,691	5,530	+ 3,839
Short term debt	1,300		— 1,300
Reserves	241	948	+ 707
Capital	3,732	5,302	+ 1,570
Surplus	5,912	10,341	+ 4,429
TOTAL LIABILITIES	$12,876	$22,121	+$ 9,245
WORKING CAPITAL	$ 4,741	$11,488	+$ 6,747
CURRENT RATIO	3.8	3.1	— .7
Book value per share	$18.30	$31.20	+$12.90
Net current asset value per share	$ 0.14	$19.10	+$18.96



the tremendous postwar demand for sheet metal and strips, the steel industry is modernizing and greatly expanding such facilities. Since Bliss has long specialized in the design and construction of rolling mills for the steel, brass and aluminum industries, under current conditions it is supplying mills of all sizes, from small strip mills to the immense four-high, five stand tandem varieties. This type of business naturally involves substantial sums of money, special designing and time for construction. Once started, the work on many of these elaborate machines is not likely to be interrupted by cancellation of orders, thus providing a considerable degree of stability to backlogs. As current expansion programs of the various metal producers cannot be completed for several years, a favorable outlook for Bliss is strongly indicated.

Comparative Balance Sheet Data

On appended tables are shown comparative balance sheet data for June 30, 1947 and December 31, 1939. These dates were chosen to obtain a true comparison with prewar; fully two years prior to Pearl Harbor most manufacturers of durables were already receiving defense orders, with progressive benefit to this company. To what extent the financial status has been improved during the period is interesting to note. The fact that net property account showed practically no change is because nearly $1 million of war emergency facilities were completely amortized and charged to profit and loss, and several hundred thousand dollars of useless properties were disposed of.

Compared with 1939 inventories valued at $3.2 million, a rise to $8.5 million by mid-1947 might appear significant. In relation to sales of only $8.2 million in the earlier period, inventories then were nearly 40%. Recently this ratio, based on 1946 volume, had declined to around 30%. Considering the sharp rise in inventory values in the past eight years and nearly tripled sales, the company's position as to inventories appears decidedly satisfactory. Additionally, the management has pointed out that all rational mark-downs of obsolete materials or finished items were made at the end of last year, and that practically everything in the most recent inventory tabulation was needed in connection with work in process. In this respect, Bliss seems to have developed an inventory status about as sound as could be asked for.

Retained Earnings Bolster Working Capital

The rise in working capital, showing a gain of approximately $6.74 million since 1939, was due in part to retention of earnings in the business, and also to issuance of 100,000 shares of $2.25 preferred shares in 1946. To tide over losses incurred in 1945, due to contract cancellations and reconversion difficulties, Bliss arranged for a $3 million term bank credit in that year, drawing against it to the extent of about two-thirds of that amount. The last of these loans have now been retired and as of June 30, the company was free of all short time bank debt. Cash holdings of $4.54 million alone came close to covering current liabilities, and the current ratio was better than 3 to 1, a comfortable relationship.

Changes in the capital structure last year helped to improve the company's over-all position. Part of the proceeds of the new preferred stock issue was used to retire all outstanding 5% and 6% convertible preferred shares, thus reducing senior charges ahead of the common. Under the terms of the new issue, the company is obliged to set aside 3% of annual net earnings to redeem outstanding preferred, but apparently the management is exercising a privilege of buying in additional shares, for the company has recently announced that the net amount of preferred outstanding has been reduced to 86,100 shares in little more than the space of a single year. The entire issue may be redeemed shortly, to which end the company is currently negotiating a $3 million, 15-year loan. Proceeds of this loan, plus treasury cash, would be used for redemption. Retirement of the preferred would leave the common the sole outstanding capital stock. At present there are 341,639 shares of $1 par common of an authorized issue of 800,000 shares, including 160,000 shares reserved for conversion of the preferred.

Operations and earnings under changing conditions during the past ten years are shown in the appended table. Reported sales of $18.2 million in the first half of 1947, compared with $24.1 for all of 1946, reflects a smoother inflow of materials, speeding up of output all along the line and a general increase in operating efficiency. In (*Please turn to page 46*)

Long Term Record of Operations and Earnings

Years	Net Sales (000 omitted)	Sales Per Sh.	Operating Margin	Net Income (000 omitted)	Net Profit Margin	Net Per Share	Dividend Per Share	Price Range
6 months to June 30, 1947	$18,239	$53.50	14.2%	$1,612	8.8%	$4.40	$1.00†	31 -18½*
1946	24,176	70.50	7.8	1,386	5.7	3.40	Nil	33¼-18¼
1945	19,065	55.95	def.	52	.2	def.14	1.00	36⅛-15¼
1944	21,945	64.00	5.5	816	3.7	2.09	1.00	16½-11⅝
1943	44,008	129.00	17.9	1,142	2.6	3.00	2.00	16⅜-10¾
1942	46,625	137.00	36.2	2,427	5.2	6.73	2.00	16½- 9⅝
1941	33,934	99.40	22.4	2,009	5.9	5.51	1.00	20¼-12⅝
1940	15,780	46.20	16.2	1,505	9.5	3.87	Nil	22⅞-12
1939	8,233	24.00	def.	def.149	def.	def.99	Nil	19½- 8
1938	10,377	30.40	1.9	157	1.5	def.08	Nil	16¾- 4⅞
1937	15,175	44.50	7.2	821	5.4	1.93	Nil	24⅞- 4½
10 year Avge. 1937-46	$23,932	$70.09	11.5%	$1,016	3.9%	$2.53	$ .70	36⅛- 4¼(a)
4 year Avge. 1937-40	$12,391	$36.28	6.3%	$ 583	4.1%	$1.18	Nil	24⅞- 4½(a)

(a)—High and Low for the indicated period.
*—To September 29, 1947.
†—Paid through August 1, 1947.

Photos by Bigelow Sanford

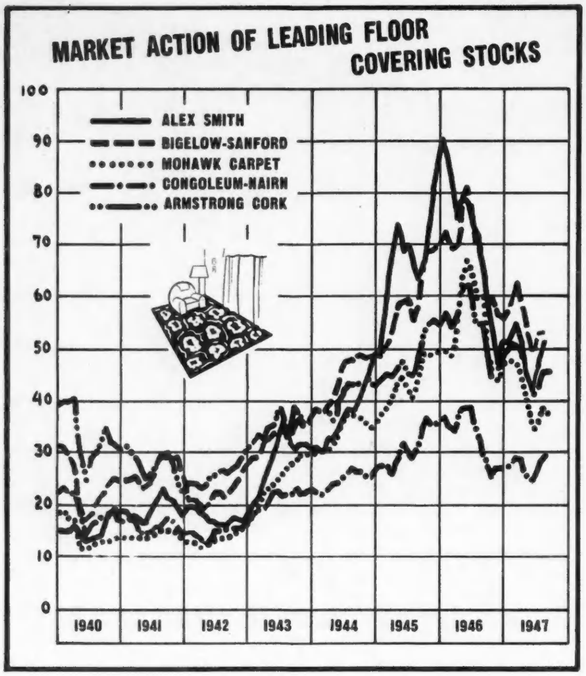
The Big Five in Floor Coverings

By RICHARD COLSTON

Manufacturers of rugs, carpets and linoleum are finding 1947 very much to their liking. Coming on the heels of an especially satisfactory year in 1946, this optimism carries a good deal of significance, especially as progress during the current year has shown steady improvement. As matters look now, production and sales in the last two quarters will soar to record proportions, with a likelihood that total output of yardage for 1947 may rise to around 71 million yards, up 20% compared with 1946. And due to price increases, dollar sales may rise more, for a possible total of $260 million. Practically all units in the industry are sharing in this prosperity, as their interim reports show. We have, however, narrowed the list to five prominent concerns for the purpose of our discussion.

Floor coverings of every description were in very bad shape everywhere at the war's end, for early in the war, the factories shifted production to materials needed for the Armed Forces, and supplies in the stores were rapidly exhausted. During the first half of 1946, reconversion difficulties for months precluded a return to normal operations. Additionally, inadequate labor supply until very recently has proved troublesome, and in the carpet branch of the industry, where principal raw materials have to be imported from foreign countries, lack of shipping and interrupted supply sources caused a serious problem. Elimination of these handicaps has been progressive ever since mid-1946, until a year later the decks are now pretty well cleared. During all of 1947, the manufacturers have been boosting output in a seemingly vain attempt to make inroads into huge order backlogs, for distributors have discovered in floor coverings one item, at least, that moves out of their stores with gratifying speed. So heavy, indeed, is the current demand that manufacturers have been forced to allocate deliveries in every direction. As nearly as the trade can foresee, this tight situation is apt to continue for quite an extended period, with demand for replacements bolstered by the vast home building program that will require new goods. If the national income remains near the present level, some managements in the industry predict that several years may elapse before supply fully catches up with demand.

During the current year, wage increases have been general throughout the industry, but were of less significance to the highly mechanized linoleum division than to the producers of soft pile coverings. Firmer prices for jute, imported wools and linseed oil, also have served to raise operating costs. Fortunately, the resultant squeeze upon operating



margins has not proved too serious; with supply and demand in its present relationship, the manufacturers have found it practical to raise prices from time to time, a fairly recent upping having averaged about 3%. While under current conditions, availability of goods rather than their price has been the main spur to consumer purchases, general policies in the industry lean towards keeping prices down; despite a sellers' market, competitive influences impel conservatism in pricing policies. With an eye to tomorrow as well as today, a number of leading firms, such as Bigelow Sanford, Armstrong, Firth Carpet and Congoleum are spending large sums on promotional campaigns to entrench their brands in popular favor. In other words, most of the concerns are making hay while the sun shines, building up working capital and trade positions to ease the impact of any later business recession that may appear, meanwhile passing on to stockholders a fair share of their earnings.

The rise in wage and materials costs, of course, has pushed break-even points to a level where a downtrend in volume some day might considerably affect earnings, unless offset by future operating economies. While prices for floor coverings are still only about 30% above prewar levels, it is reported that a 20% drop in volume would land more than one manufacturer in the red. Also, apart from some possible future dip in unit sales, a decline in raw materials prices on any broad scale could force substantial inventory mark-downs in this industry, as well as bring about a downtrend in dollar volume. Because the process of dyeing and weaving rugs and carpets is slow, and numerous materials have to be obtained on "a catch as can" basis from all over the world, inventories have to be much larger in proportion to sales than in most other forms of enterprise. This creates an inescapable hazard in time when prices begin to fluctuate markedly. At present, though, inventories are considered to be in an entirely safe position because of the huge unsatisfied demand for finished goods.

Armstrong Cork Company, from the viewpoint of sales and invested capital, outranks all other units in the industry by a wide margin, but a broad diversification of products accounts largely for its prominent over-all stature. Although the leading producer of linoleum, the company manufactures a wide range of cork products, asphalt and rubber tile, felt based coverings, glass containers, metal caps and crowns, as well as molded plastic closures. The business is wold-wide in character, foreign sales in 1946 contributing $15.6 million to a total volume of $104.7 million. It will be noted from the appended statistical table that last year's operating margin in relation to sales was relatively narrow at 5.6%, but partly due to tax relief net per share amounted to $2.54, the second best showing since 1942.

For 6 months ended June 39, 1947, consolidated net sales were $68 million, $12.5 million above those for the corresponding period in 1946. The larger volume achieved, plus improved operating advantages, widened the operating margin to about 8%, and net earnings for the half year rose to $2.70 per share, considerably better than for all of 1946. Were it not for a deduction of $259,000 for inventory reserves, the showing would have been even slightly better. As dealers' shelves are virtually bare of linoleum, it seems fairly sure that the company's results for the second half will at least equal those for the first six months. In this event it is quite likely that the company will declare a liberal year-end extra dividend, for the quarterly rate of 40 cents per share would seem ultra-conservative in view of the wide earnings coverage, ample working capital and the bright outlook ahead. At recent price of 49, the common shares might seem rather adequately valued in relation to 1946 earnings, with a price-earnings ratio of 19.3, but on basis of indicated 1947 net of $5 a share, the price looks more moderately valued. The shares have a measure of investment appeal, for aside from two years in the early 1930s, distributions have been steady for decades.

Bigelow-Sanford

Bigelow-Sanford Carpet Company is the leading domestic manufacturer of rugs and carpets, including Axminister, Beauvais and Wilton types. As the business was originally established in 1825, its foundation of experience is substantial, and the company has become strongly established in the trade and with the consumer public. Sales and profit margins of this concern have varied rather widely from year to year in the past, but during the last six years annual volume has hovered close to the $40 million mark and net earnings have been fairly satisfactory. During the three years prior to Pearl Harbor, average net per share exceeded $6, but profits from military production during the war were curtailed by tight Federal pricing and excess profits taxes.

Reconversion handicaps, marked in the first half of 1946, were overcome only later in the year, but as the company got into its stride with freedom from price restrictions and increasing output, it proved its ability to make a good showing for the full year. Volume for 1946 was $39.2 million, on which net earnings amounted to $3.53 per share. Compared with this favorable result, progress during the first half of 1947 showed an even more striking improvement; sales for the six months soared to $28.4 mil-

lion and net per share to $4.52. Considering the encouraging conditions now current in the industry, it seems fairly certain that 1947 may prove to be a banner year in the company's long history, both as to sales and profits.

Quite evidently the combined advantages from larger volume and higher prices are holding profit margins at a satisfactory figure, and as labor peace seems assured for another year the likelihood of smooth operations is enhanced. Last fall, Bigelow strengthened its working capital position by borrowing $5 million on long term notes at a low rate, and dangers of a shrinkage in inventory values have been cared for by creation of a special $1 million reserve. The individual record of this concern, though occasionally marked by lapses, has on the whole been quite good. During the past five years $2 per share has been the annual rate. In each quarter of 1947, so far, $1 per share has been paid, and there is possibility of a year end extra. Based on current and prospective earnings and dividends, the price of 54 for the common seems reasonable, leaving room for further price enhancement.

Congoleum-Nairn, Inc. is conspicuous as the only large concern that concentrates entirely upon production of linoleum. It has established an impressive record of earnings stability, and through consistent promotional activities, its competitive position has been well maintained. The special type of coverings produced by this concern, being lower priced than woven carpet and rugs, affords a certain competitive advantage. Since the end of the war, difficulties have been experienced in securing adequate supplies of linseed oil, and stiffening prices for this essential have substantially added to operating costs. As an offset, though, the wartime shortage of imported cork forced what has turned out to be a large scale substitution of wood flour. This abundant and reasonably priced material has proved to be highly satisfactory. With an unprecedented amount of backlog orders far in excess of capacity, and with highly mechanized production, Congoleum is turning out its products at a record rate. An insatiable demand from homes, hotels, offices and public buildings promises high level operations for quite a while ahead.

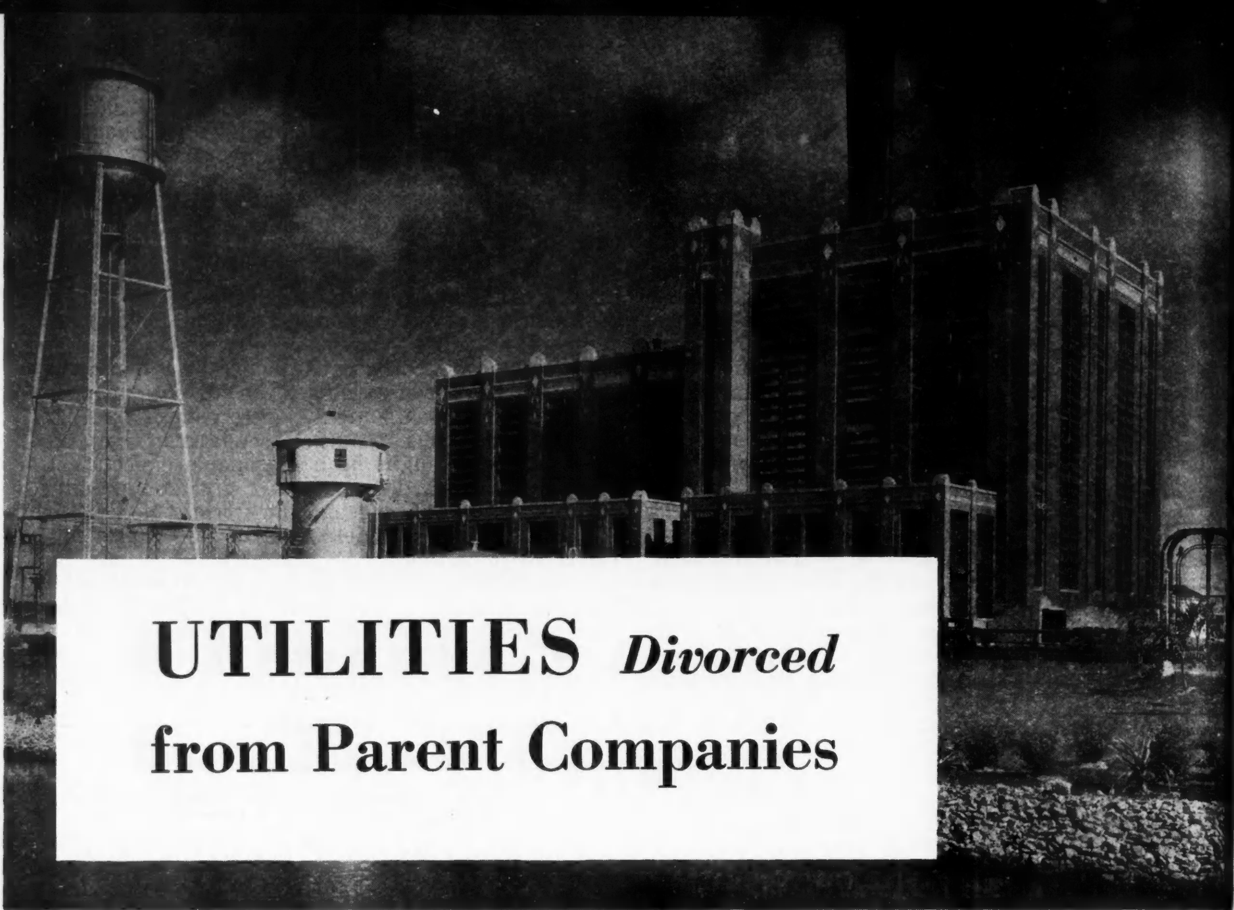
The company's sales for the first six months of 1947 amounted to $21.1 million, compared with a total of $24.5 million for the full year 1946. Net income for the first half came to approximately $2.5 million, equal to $2.05 per share. In relation to sales, accordingly, net amounted to almost 10%, compared with about 6.8% in the corresponding period of 1946. As everything indicates that for the balance of 1947 and some time thereafter, profits will continue at about the current level, the company's net for full 1947 should at least double the figure for last year. As a reserve for contingencies, Congoleum has set aside $1.99 million on its books. Working capital of $16 million appears fully adequate for current requirements. Finances have been consistently strengthened by retention of a substantial part of earnings. The current quarterly dividend rate appears unduly low in view of the 1947 improvement in net income. Hence later in the year, a liberal extra might be a reasonable expectation. For shares with a long record of dividend stability such as those of Congoleum, the stock is moderately priced at 29; current yield alone of 4.3% holds considerable attraction.

Mohawk Carpet Mills, Inc., is an old established concern specializing in Chenilles, Wiltons, Axminsters, tapestries and velvets. Its growth trend is shown by the rise of sales from $7.6 million fifteen years ago to an average (*Please turn to page* 50)

Statistical Summary of the "Big Five" in Floor Coverings

	Armstrong Cork	Bigelow-Sanford	Congoleum-Nairn	Mohawk Carpet Mills	Alex. Smith & Sons
CAPITALIZATION	As of June 30, 1947				Dec. 31, 1946
Funded Debt ($ million)		$5.0(a)			
Preferred stock (number of shares)	161,522	26,403			49,110
Common stock (number of shares)	1,410,865	309,109	1,243,000	531,000	937,935
INCOME ACCOUNT	For Year Ended December 31, 1946				
Net Sales (000 omitted)	$104,717	$39,222	$24,550	$33,332	$45,291
Net Sales per share	$74.00	$127.00	$19.70	$63.00	$48.00
Operating Margin	5.6%	5.1%	14.1%	12.1%	16.1%
Pre-tax Net Income (000 omitted)	$6,717	$2,238	$3,684	$4,169	$7,450
Pre-tax Net Margin	6.4%	5.7%	15.0%	12.5%	16.4%
Net Income (000 omitted)	$4,184	$1,248	$2,354	$2,531	$4,602
Net per share	$2.54	$3.53	$1.89	$4.77	$4.79
LONG TERM EARNINGS RECORD	Net Per Share				
1946	$2.54	$3.53	$1.89	$4.77	$4.79
1945	2.02	2.37	1.30	1.91	1.48
1944	2.76	2.81	1.48	2.33	1.49
1943	2.45	2.48	1.24	2.40	1.60
1942	1.95	3.52	1.30	3.03	2.03
1941	2.86	6.01	1.62	3.62	3.66
1940	2.79	6.11	1.30	2.91	3.39
1939	3.03	6.45	1.70	3.29	3.69
1938	.77	def5.26	1.02	def2.72	.16
1937	3.66	1.29	2.03	2.27	.72
10 year average 1937-1946	$2.48	$2.93	$1.49	$2.38	$2.30
Dividend 1946	$1.80	$2.00	$1.25	$2.00	$1.60
Dividend 1937-46 Ten Year Average	$1.70	$2.15	$1.30	$1.60	$1.07*
BALANCE SHEET (000 omitted)	As of June 30, 1947				Dec. 31, 1946
Cash and Securities	$12,112	$4,697	$8,434	$2,005	$16,163
Cash and Securities as % of Current Assets	30.0%	16.6%	40.1%	9.9%	44.0%
Inventories	$20,715	$17,790	$9,624	$15,139	$16,192
Inventories as % of Current Assets	51.1%	63.0%	45.8%	75.1%	44.1%
Total Current Assets	$40,542	$28,310	$20,967	$20,215	$36,704
Total Current Liabilities	$8,776	$4,959	$4,409	$4,122	$7,286
Net Working Capital	$31,766	$23,351	$16,558	$16,093	$29,418
Current Ratio	4.6	5.7	4.8	4.9	5.0
Fixed Assets, Net	$33,806	$7,472	$14,051	$5,000	$10,891
Total Assets	$84,365	$37,540	$37,184	$26,214	$50,070
Book Value per Share	$41.00	$76.60	$23.80	$37.40	$39.77
Net Current Assets per Share	$10.70	$50.50	$13.30	$30.30	$26.00
Recent Price of Common	49	54	29	36	35
Price-Earnings Ratio (to 1946 Earnings)	19.3	15.3	15.3	7.5	7.3
Dividend Yield	3.7%	3.7%	4.3%	5.5%	4.6%

(a)—Long term notes payable, due 1951-66. *—1944-46 Average.



UTILITIES *Divorced* from Parent Companies

By JAMES M. GORDON

The Public Utility Holding Company Act was passed by Congress in 1935, and the breakup of the holding company systems (controlling about half of all electric and gas enterprises in the United States) was intrusted to the Securities and Exchange Commission. But the language of the Act (and particularly the important Section 11), while intended by New Deal experts to be as sweeping as possible, was ambigious and poorly drawn. Hence there were some years of legal sparring between the Commission and the utilities before any tangible results were obtained.

Holding Company Break-Up Well Advanced

The utilities finally became reconciled to the fact that they could not have the Act overthrown by the courts or amended by Congress, and adopted a cooperative attitude. The SEC, more conciliatory, withdrew or modified the famous "death sentences" issued about 1942. By trial and error, a number of plans have been evolved. The holding companies have disposed of many properties by sale, exchange for their own senior securities, or outright distribution to common stockholders. As a result of this accelerating activity, the breakup of the holding companies now appears about half completed. Moreover, a great amount of work has been done to recapitalize and strengthen the financial position of both the operating and the holding concerns.

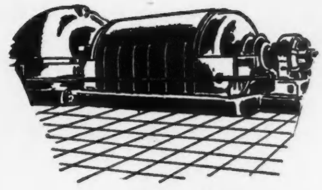
The earnings of the operating companies separated from holding company systems have in many cases shown sharp gains in recent years, due to tax savings, reduced fixed charges resulting from refunding operation, and the war-time and postwar growth which has characterized the industry.

Unseasoned Issues

But many of the new stock issues have been sold or distributed since April 1946, and market conditions have not been very favorable for their reception. Many are "unseasoned"—that is, they have not yet been generally accepted by institutional and other conservative investors for placement of new funds or as "switches" from well-established issues. Hence these new issues are available on a higher average yield basis than the older stocks. Moreover, some issues offer particularly generous yields because of various factors such as small size, traction business, unfavorable rate structures, etc. Individual investors interested in buying these issues should note the unfavorable points, while taking advantage of the higher average yields available in this list. We describe briefly some of these issues (see accompanying table) as follows:

Atlantic City Electric is one of the two outlying subsidiaries of the American Gas & Electric System. It has shared in the efficient engineering and account management which that system enjoys. While Atlantic City is known as a resort center, sales of electricity in the city have been quite stable, except during the wartime blackout period. However, it is really a misnomer to name the company after Atlantic City, since it serves the entire southern part

of New Jersey. In the interior area are located chemical and glass industries, as well as prosperous large farms. As indicated by the relatively low yield of 6%, the stock is well regarded in investment circles.



ELECTRIC POWER

Birmingham Electric was distributed in the break-up of National Power & Light in August 1946. The stock sells on an exceptionally high yield basis—about 8%—for the probable reason that two-fifths of revenues are obtained from transit operation. Also, Birmingham as a southern steel center is a somewhat "cyclical" city. Transit properties include 138 miles of electric railway (single track) and 215 miles of motor coach route. Transit earnings, so far as information is available, appear to be holding up well thus far (total revenues for the 12 months ended July 31 were about $1 million ahead of the previous period; and in the calendar year 1946 transit revenues were still growing). Moreover, profit margins are expected to improve when new equipment schedules take effect. Residential electric rates are quite low, which somewhat offsets the high rate of return on investment. Common dividends are subject to various restrictions.

California-Oregon Power offers a generous yield (6.7%) despite the fact that it is a hydro-eletcric company and thus to some extent sheltered from rising costs. However, the small size of the company and the propinquity of such big government power projects as Bonneville and Central Valley, are doubtless market handicaps. The company was divorced from Standard Gas & Electric this past June. Prewar earnings were much smaller than the current rate.

Carolina Power & Light was distributed by National Power & Light a little over a year ago. A substantial amount of stock is still owned by Electric Bond and Share and must eventually be liquidated by that company. A considerable part of the output is hydro power (generated or purchased) and the company has numerous interconnections. Cotton, tobacco, textiles and paper are the principal industries in the era. Rates are low and residential usage above average. Dividends are conservative in relation to earnings, but the stock affords a yield somewhat below average for the group.

Central Maine Power is a subsidiary of New England Public Service. The property has had a good growth record (revenues have doubled from the prewar level), but business in this area—largely farms, resorts and light industry—is considered relatively stable. Substantial hydro-electric production is also a stabilizing factor. The company's financial structure is sound, and the stock seems well regarded by New England investors.

Concinnati Gas & Electric was sold by Columbia Gas & Electric a year ago. About 68% of revenues are electric and 30% natural gas (purchased from the Columbia System). The stock sells on a relatively low yield basis as compared with other new issues, possibly because a favorable rate decision is expected in the near future. The decision in the Cleveland Electric Illuminating case, favorable to that company, is expected to furnish a precedent for the Cincinnati decision.

(*Please turn to page* 50)

		Dividend Rate	Recent Price	Approx. Yield %	Recent Earnings* Per Share		Price-Earnings Ratio	Per Share Earnings Calendar Years 1946	1945	Revenues ($ mill.) 1946
O	Atlantic City Electric	$1.20	$20	6.0%	July	$1.44	13.9	$1.50	$1.20	$12
S	Birmingham Electric	1.20	15	8.0	July	1.86	8.1	2.21	1.53	13
O	California Oregon Power	1.60	24	6.7	May	2.81	8.5	2.71	1.82	7
S	Carolina Power & Light	2.00	34	5.9	August	3.16	10.8	3.28	1.50	19
O	Central Electric & Gas	.60	8	7.5	June	1.00	8.0	1.06	.46	10
O	Central Maine Power	1.20	21	5.7	July	1.69	12.4	1.44	1.34	16
S	Cincinnati Gas & Electric	1.40	26	5.4	June	1.98	13.1	1.78	1.02	34
S	Col. & So. Ohio Electric	2.85	42	6.8	June	4.23	9.9	4.34	4.40	19
S	Consumers Power	2.00	36	5.6	July	2.99	12.0	2.84	2.17	68
S	Dayton Power & Light	1.80	30	6.0	June	2.73	11.0	2.58	1.37	25
O	Delaware Power & Light	1.00	19	5.3	June	1.70	11.2	1.82	1.19	14
O	El Paso Electric	1.60	25	6.4	July	2.43	10.3	2.25	1.57	4
S	Florida Power	1.00	15	6.7	June	1.65	9.1	1.54	1.28	10
C	Gulf States Utilities	X	16	......	July	1.59	10.1	1.53	1.08	17
O	Michigan Gas & Electric	1.20	17	7.1	June	2.09	8.1	2.33	1.34	2
O	Northwestern Public Service	.90	11	8.2	June	1.38	8.0	1.33	.61	4
O	No. Indiana Public Service	1.20	18	6.7	August	2.05	8.8	1.89	1.07	33
S	Ohio Edison	2.00	35	5.7	July	3.11	11.3	2.65	1.32	32
O	Oklahoma Gas & Electric	2.20	36	6.1	June	3.40	10.6	3.96	1.80	18
S	Pennsylvania Power & Light	1.20	20	6.0	July	2.06	9.7	2.01	.58	54
S	Scranton Electric	1.00	15	6.7	July	1.25	12.0	1.20	1.04	8
S	South Carolina Electric & Gas	.50	6⅜	7.8	June	.51	12.5	.80	.39	8
O	Tidewater Power	.60	8	7.5	June	.95	8.4	1.21	.68	4
S	Virginia Electric Power	X	15	......	July	1.59	9.4	1.71	1.39	40
O	Wisconsin Electric Power	1.00	20	5.0	June	1.73	11.6	1.89	1.01	47

S—Traded on N. Y. Stock Exchange.
C—Traded on N. Y. Curb Exchange.
O—Traded over the counter.

X—Dividend payments deferred under Engineers Public Service Plan.
*—For 12 months' period as indicated.

FOR PROFIT AND INCOME

Normalcy

What investors yearn for is "normalcy." Actually, if you think of it as a static condition, it never existed; and it never will, unless this country goes Communist, Fascist or otherwise government-run. The writer can remember when the prewar year 1913 was the base for statistical comparisons. Later the commonly used base was 1923-1925. For some years now it has been 1935-1939. An accepted base-period is indispensable for comparisons, but one should not make the mistake of thinking of it as a "normal" set of conditions to which we will return. To that extent that there is any normalcy ahead, it is a new normalcy. To the extent that there can be a normal postwar level for production, prices and corporate profits, all are bound to fluctuate within a range of population, productive resources and money supply since 1939 has no meaning. Everybody knows that stock prices are low relative to current statistics bearing on valuations. In this column's view, they are also low relative to probable average business volumes, earnings and dividends over the next five to ten years.

Example

Taking Federal debt, money supply and high-and-rigid wages into account, is it not reasonable to assume a continuing price level (in terms of paper dollars, which are the only kind one can get hold of) at least 50% over 1935-1939? If so, let us point up the general observations made in the opening paragraph by the case of Kennecott Copper. (Many other stocks would be equally illustrative). Copper is at 21½ cents a pound, against 1937 boom price of about 16 and 1939 average price around 11 cents. It is contended here that the "new normal" will be nearer 16-17 cents than 11. Kennecott is expected to earn in the vicinity of $8 a share this year. Because it is believed that copper will decline and that these earnings are abnormal, the stock is priced now at only 5.4 times the estimated $8 a share. Were earnings halved, the price-earnings ratio would still be no higher than 10.8. At the 1937 bull-market high, the stock sold at 15.1 times that year's earnings of $4.60 a share. At the subsequent bear-market low, it sold at 12.5 times 1938 earnings of $2.10. On the lowest dividend paid within the years 1936-1939, the stock would yield over 4% at current price, while on average 1936-1939 dividends the yield would be over 5%. This column is not urging you to buy Kennecott. There is no reason to suppose it will do better than the market any time soon. It might even fare worse as long as present psychology prevails. Our purpose is to note that many stocks probably are in a sound long-term buying zone when analyzed realistically.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
Anderson, Clayton & Co.	Year July 31	$13,18	$ 9.33
Gulf Oil	6 mos. June 30	4.68	2.95
Howard Stores	6 mos. June 30	2.56	1.98
Kayser (Julius)	Year June 30	3.50	2.10
McKesson & Robbins	Year June 30	5.39	4.74
Mueller Brass	9 mos. August 31	3.25	.67
North American Rayon	36 wks. Sept. 6	5.59	3.55
Park Utah Consol. Mines	6 mos. June 30	.06	.007
Timken-Detroit Axle	Year June 30	2.91	1.37
Zenith Radio	July 31 quarter	.77	.21

Bond Stores

In the September 27 issue it was noted here that operating margins of most retail concerns are no longer much above those of reasonably good prewar years: in other words, at a level much nearer the probable long-term normal, or average, than most investors imagine. For Bond Stores the margin is always among the highest in the retail field, partly

because the company manufactures the major part of the apparel which it retails. In the six prewar years 1934-1939, its lowest margin was 9.3%, its highest was 16.3%. Surely 12% would seem a conservative expectation for the future, against 20.7% last year. Allowing for a permanently higher price level and for some expansion in number of stores, now 58, a projection of $75 million a year in sales (no more than 1946 volume) would probably be low, rather than high. Bond is earning around $6 a share now, paying $2 in dividends, and is priced at 4.5 times earnings. On a gross of $75 million and margin of 12%, earnings would be about $3.30 a share. The stock is priced at 8.2 times that figure. On this projection, the $2 dividend would be adequately covered. The present yield on it is 7.4%. The points made here do not assure early advance, or even preclude further decline, given general unsettlement. They do suggest that the stock of this growing company probably is undervalued on any reasonable longer-term investment basis.

Addenda

Several issues ago this column suggested that some profit-taking in oils, except as held by genuine long-term investors, appeared to be a good idea. It went on to say that we saw nothing the matter with the industry's prospect, but that: "Something, usually unpredictable, seems to have a way of happening sooner or later to stock groups which not long before had been 'the fair-haired boys' of the market place." Well, "something" has already happened. It is the spector of stock financing to meet the cost of expansion. The large offering of rights by Texas Company, taking this stock down to 53¾ from a 1947 high of 68⅞ was the opening gun. Subsequently Standard of New Jersey reacted sharply on rumors of financing, steadied when they were denied (for the present). Now Standard Oil of Ohio has announced that it will offer 584,320 shares, one new one for each five held. In short, there is enough financing-fire in the oils to smoke up much of the group. Some are down enough now to make profit-taking considerably less inviting, not enough to suggest any need for hurry on the buying side. We continue to think that, basically, oils are among the best long-term investments.

Boom

After faltering for some months, when prices were considered too high and likely to come down, the boom in building is now gathering fresh momentum. Evidently opinion has swung more toward the view that building costs, while high, are no more inflated than is the national income, and that they are very unlikely to come down importantly, if at all, any time soon. Meanwhile, needs remain large and urgent, especially with respect to housing. Contract awards in August showed an emphatically large gain, both over July and over August, 1946. We conclude that building stocks probably will hold up better than the general list should the market sag further, rise more than the market on the next general upswing.

National Gypsum

Within recent days the president of National Gypsum estimated 1947 sales at about $50 million, net at around $2.75 a share; and said that 1948 sales of $60 million, and net in the vicinity of $3.50 a share, were a reasonable expectation. Working capital is now over $15 million. Expansion is still in progress but should be substantially completed within 1948. When these needs taper down, about 50% of earnings should be paid in dividends, according to this source. That implies that a quarterly rate of at least 40 cents a share, perhaps more, is likely in due time. It would yield over 8% on the present price of the stock, which at 20 sells about 7.0 times this year's earnings and less than 5.6 times projected 1948 net. President Baker did not say that his stock looks like an attractive speculation, whatever it may do for the near future, but his figures and estimates point to that conclusion. (This column had already arrived at it, but is glad to have some "official" support.)

Others

For purposes of capital gain, there is not much point in splitting hairs on building stocks. They move pretty much together, general market conditions permitting. The top grades are, of course, Johns-Manville and U. S. Gypsum. But the biggest percentage moves are always either in lower-price stocks or those of lightly capitalized companies. Among the former, in addition to National Gypsum, this column likes Celotex and Flintkote. Among the latter, Ruberoid is outstanding. The underlying need for housing is pointed up by the fact that from 1930 to 1940 about 5,000,000 new families (marriages) were founded, only 2,700,000 new dwelling units built; between 1940 and 1946, there were 9,600,000 new families but only 2,600,000 new dwelling units; while this year's new families are estimated at 1,000,000, new homes at 700,000. The figures make no allowance for large annual fire and storm losses.

Acting Well

Stocks which have recently been meeting good demand in a generally indifferent market include International Paper, Bucyrus-Erie, Celanese, Gaylord Container, Hudson Motor, Minneapolis-Moline, Sunray Oil, Skelly Oil, Pacific Western Oil, Household Finance, Martin Parry and Sharon Steel.

DECLINES SHOWN IN RECENT EARNINGS REPORTS

		1947	1946
American Molasses	Year June 30	$ 1.42	$ 1.51
Austin Nichols	4 mos. August 31	.11	1.02
Beatrice Foods	6 mos. August 31	3.06	4.74
Crowley-Milner	6 mos. July 31	.11	.99
Diana Stores	Year July 31	1.06	1.13
Gimbel Bros.	6 mos. July 31	1.15	5.18
Hollinger Cons. Gold Mines	6 mos. June 30	.13	.18
Kinney (G. R.)	6 mos. June 30	1.82	2.21
Pacific Tel. & Tel.	12 mos. August 31	3.07	6.29
Wyandotte Worsted	9 mos. August 31	.82	1.98

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

United Wallpaper Inc.

Please furnish information on working capital, earnings and prospects for United Wallpaper Inc."

P. R., Chicago, Ill.

United Wallpaper Inc. reported net sales of $22,760,582 for the fiscal year ended June 30, 1947, an increase of 58.4% over the preceding year, when $14,373,928 was the sales volume. Net profits, including those of domestic subsidiaries, and after all charges, rose to $1,842,345, equal to $1.46 a share compared with $759,413 or 59 cents a share in the preceding year. Federal and state income taxes increased to $1,293,548, as contrasted to $1,082,792 a year ago. Net working capital was reported at $4,542,688 compared with $6,145,643 at the close of the previous fiscal year. Ratio of current assets to current liabilities were 2.27 to 1. Book value of common stock increased to $5.95 per share from $4.68 at the close of the last fiscal year.

While the demand for wall paper is expected to continue high for the next twelve months, according to the president of the company, it is improbable that either sales or profits will be as large as for the year just ended.

The company's new plant at Aurora, Illinois, was substantially completed recently, and full production is anticipated by the end of the year. This plant originally scheduled to cost $2,000,000, will probably involve an expenditure of $3,737,090. This has been caused principally by unavoidable delays, by constantly increasing prices for building materials, and by premium wage rates required to be paid to construction employees. To meet these increased costs and to maintain a necessary working capital position, additional borrowing will be required. A special meeting of United preferred stockholders will be held in October to approve increasing the company's permissable funded debt from $2,000,000 to $3,500,000. Subject to this approval, Metropolitan Life Insurance Company has agreedto lend the company an additional $1,500,000. This loan would be repayable over a twenty year period, at an interest rate of 3¼%. The annual dividend rate of 25 cents per common share will continue.

Gardner-Denver Company

Please report sales, earnings and prospects for Gardner-Denver Company. *C. R., Washington, D. C.*

Gardner-Denver Company manufactures rock drills, equipment and accessories, air tools, steam and electric driven pumps, compressors, steam governors, mechanical loaders and miscellaneous air tools. Full production is completely sold out for all of 1947 and through almost half of 1948, according to officials of the company. With the expectations of operating at full capacity, certain plant improvements will be made but no major plant expansion is contemplated. Working capital is now in excess of $10,000,000.00 and no new financing is contemplated in the near future. Foreign business of the company has increased over pre-war years, and is currently running about 38% of total production.

Sales, which at $14,798,000.00 in 1946 were about double the 1937 total, are expected to approximate $18,000,000.00 this year. No price increases have been made this year, but there will be some increases shortly. Profit margin at present is around 14%, compared with 21% in 1937. On the basis of present cost, the company could break even on a sales volume of about $9,000,000.00, it is stated. Earnings for the first six months of this year amounted to $1.44 a share on the common compared with 69c in the like period of 1946. Full 1946 earnings were $2.44 a share. Dividend payments in 1946 amounted to $1.00 and so far this year were $1.10. The latest quarterly dividend to stock of record October 7th represents an increase of 10c a share. This action places the stock on a $1.40 annual basis. Capitalization consists of 4% cumulative preferred; par $100. 25,000 shares outstanding and 656,049 shares of common stock outstanding.

Stokely-Van Camp

"Please report comparative sales and profits in recent years for Stokely-Van Camp Company."

R. A., Portland, Oregon

Stokely-Van Camp Inc., attained new highs in both sales and earnings in the fiscal year ended May 31, 1947. Except for 1938, Stokely-Van Camp sales have reached a new high each year for fifteen successive years.

Net sales for the fiscal year ended May 31, 1947, reached a record high of $107,018,513, an increase of approximately 20% over the $88,969,163 reported for the preceding fiscal year. Over this period, sales to the U. S. Government declined $7,774,370. Sales for civilian use increased from 73,837,163 to $99,660,799. Net income for the latest fiscal year in-

(Please turn to page 50)

Keeping Abreast of Industrial and Company News

With housewives all over the country pondering how to trim their food budgets, in line with requests from Washington, R. L. Sullivan, vice president of American Can Company is out with some timely suggestions. His advice is for the public to turn increasingly towards wholesome canned foods.

According to this source, supplies of canned fruits, juices and vegetables are bigger than at any time before or during the war, and price increases have been only nominal compared with those of most other foods. In part this is due to the fact that prices for food cans themselves are up less than 5% compared with 1936.

Need for new equipment to meet mounting demand for electric power has become urgent, reports Colonel H. S. Benton, managing director of Edison Electric Institute. Delivery delays, it seems, have narrowed the nation's excess power capacity to less than 8% compared with 12% last year.

As analyzed by the magazine Steel, steel makers are farther behind in keeping pace with their orders than since the war end, except during strike periods. Hence allotments of sheets, strip, pipe and probably plate, are likely to be cut still narrower in the last quarter.

A firm of certified public accountants, Seidman & Seidman, authority on the furniture industry, concludes that after pursuing a phantom depression for 15 months, the public apparently has accepted higher price levels. The result has been more liberal buying at every level.

A few months ago, cancellations of furniture orders were rising by leaps and bounds. But during August an abrupt reversal in the trend encouraged the furniture industry. Cancellations practically vanished and buyers were desperately trying to reinstate orders.

The steel industry has been establishing some peace time records for production in some respects, announces Benjamin F. Fairless, president of U. S. Steel Corporation. Subsidiaries of "Big Steel" have poured their 50 millionth ton of steel since VJ-Day, as proof of his claim.

Among numerous concerns now confident of peak sales for 1947 is Blaw-Knox Company. William Witherow, president, predicts that volume for the current year will easily top the $46 million reported in 1946. Rising operating costs, though, create uncertainties over relative net income.

New construction planned by International Paper Co. for 1948 and 1949 will now involve about $47 million, up $25 million over earlier estimates. Upon completion the new facilities should increase kraft board capacity by 900 tons and kraft paper 100 tons daily.

With instalment credit soon to be freed from restriction, Commercial Credit Company expects a rapid expansion in its activities. To increase its working capital, this concern has borrowed $18 million for 10 years at 3% from Metropolitan Life Insurance Co. and $7 million on the same terms from Mutual Life.

Although farm equipment sales by International Harvester Co. are of record proportions, rural electrification has created new agricultural markets for exploitation. Alive to this, the company is putting out a new line of refrigerators and home freezers designed to meet special needs in this field.

Rental of passenger automobiles and trucks seems to have won popular favor on a much larger scale than one might think. Hertz Driv-Ur-Self system is now said to own 26,000 passenger cars and 7,000 trucks, operating in 250 United States and Canadian cities.

Producers of automobile parts and accessories are enjoying a huge replacement business, as car owners struggle to keep their old conveyances going on the roads. In contrast to a normal car scrappage of 3.5 million in prewar, last year only 1.4 million autos went to the junk pile. Total automobile registrations now top 34 million, an all time record.

During 1947 and 1948 the fertilizer industry is confident of establishing peak records with a production around 17 million tons. Present capacity would permit an output of 20 million tons were it not for problems concerning labor, transportation and materials. Affluent farmers are buying more than twice as much fertilizer than in prewar.

Merger of General Machinery Co. and Lima Locomotive Co. has now been assured by stockholder acceptance of the terms. Production of Diesel powered locomotives, favored by domestic carriers, will now be undertaken by Lima on a decidedly expanded scale.

For more than a year past, the management of R. H. Macy & Co. has been carefully analyzing the results of its experiment in establishing subsidiary stores throughout the country. Cost savings through enlarged volume and the spread of overhead, it is said, have proved so impressive that the company's expansion program will probably be substantially broadened.

Results of operations by the national banks for six months ended June 30, 1947, as furnished by the Controller of Currency, Preston Delano, are interesting to note. Though total net profits dropped $38.8 million compared with last year's relative showing, these banks earned 9.11% on their capital funds, distributed cash dividends equal to 3.26% and retained the balance.

The Internal Revenue Bureau is out with some other interesting statistics. In the first two months of the fiscal year 1947, Federal tax collections were more than $214 million higher than in the same period last year. Considering a relative decline of $441 million in receipts from excess profits taxes, the improvement looks still more substantial.

Enlarged personal incomes have swollen the ranks of sportsmen bent on hunting deer and wild fowl. Winchester Repeating Arms Co. reports that during the past 12 months it has produced more sporting arms than ever before in its 81 year history.

To bring textile prices into line and at the same time help Europe get back on its feet, Royal Little, president of Textron, Inc., has a novel suggestion. He proposes that we ship abroad the two million surplus spindles of the textile industry, on fair remuneration by Washington. While this equipment is not ultra-modern, low wage rates overseas would be an offsetting factor.

The BUSINESS ANALYST

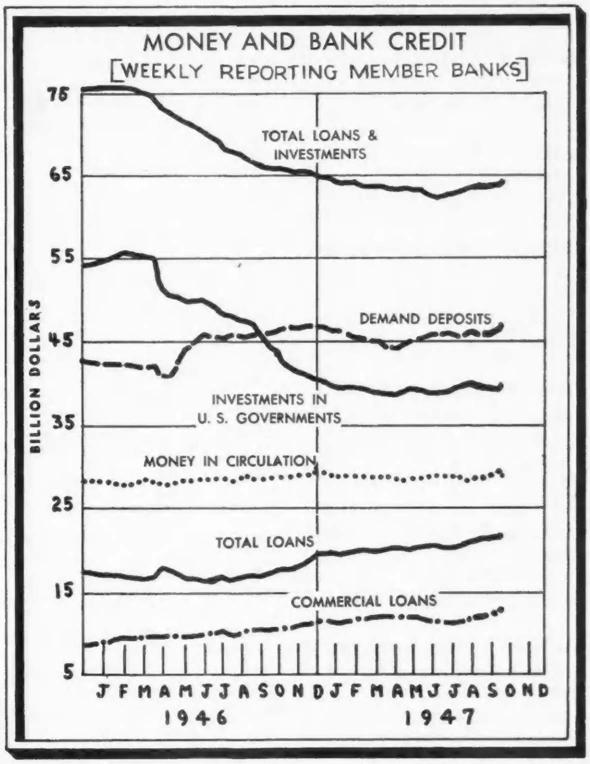
SUMMARY

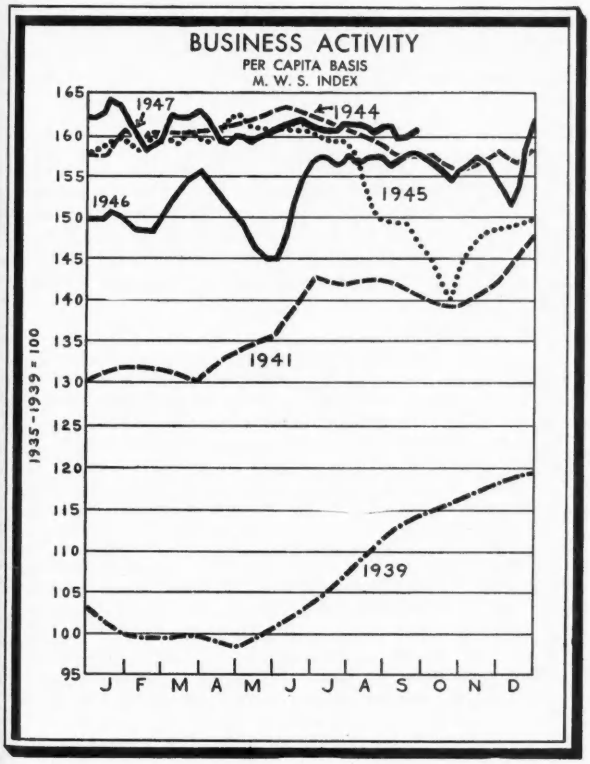
MONEY AND CREDIT — Interest rates continue to rise slowly. Banking profits begin to pick up again. Private indebtedness rose $8 billion last year; but Federal debt was reduced by $15 billion. Canada also ponders measures to ease dollar shortage.

TRADE — Department store sales sharply higher than a year ago. Profit per dollar of sales less than half of what it was a year ago. August sales by most retail groups were below last year. Outstanding exceptions were automobiles, building material, home furnishings, filling stations and food.

INDUSTRY—Business activity rebounds sharply following settlement of strike in Pittsburgh steel district. Public works construction started during first half was 43% above last year. August furniture orders were 28% above last year, with shipments up 15%. August dividends 8% over last year, against 14% increase for three months ended Aug. 31.

COMMODITIES—Futures drop on talk of higher margins, then rally with Government buying for export. Administration talks of reducing grain exports and urges home folks to eat a little less. We will have to if food prices continue to soar. World wheat crop this year to be 6½% below last year. Sugar futures weaken on end of allocation by World Food Council.





With resumption of steel operations following settlement of a local strike in the Pittsburgh area, **Business Activity** picked up again during the fortnight ended Sept. 20 to a level 4½% above last year at this time and less than 1% below the all-time high touched around the end of March.

* * *

The Federal Works Agency reports that public works **Construction** started during the first six months of 1947 was valued at $954 million, 43% above the like period last year.

* * *

August **Furniture** orders were 28% ahead of the like month last year, with shipments up 15%.

* * *

Publicly reported cash **Dividends** in August (about 60% of all payments) came to $179.4 million, a gain of 8% over last year against an increase of 14% for the three-months' period ended Aug. 31. Largest three-months' increase was 51% for the textile and leather group—with mining, at 49%, running a close second. Disbursements by railroads and communications were 6% to 3% smaller, respectively, than a year ago.

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Cooler weather was partly responsible for an upturn in **Department Store Sales** during the week ended Sept. 20 to a level 8% above last year, compared with a cumulative gain of only 7% for the year to date. At New York City they

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURES—$b (e)	Aug.	0.96	0.96	1.52	1.55
Cumulative from Mid-1940	Aug.	358.4	357.4	341.9	13.8
FEDERAL GROSS DEBT—$b	Sept. 24	258.9	258.9	265.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 17	47.3	47.4	46.0	26.1
Currency in Circulation	Sept. 24	28.6	28.6	28.5	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 17	7.13	7.15	7.47	4.26
93 Other Centers—$b	Sept. 17	10.82	10.74	11.81	7.60
PERSONAL INCOMES—$b (cd3)	July	196.9	195.1	179.0	102.0
Salaries & Wages	July	121.5	121.1	109.9	65.6
Interest & Dividends	July	14.3	14.1	13.3	10.0
Farm Marketing Income (ag)	June	2.19	1.99	1.52	1.21
Includ'g Govt. Payments (ag)	June	2.21	2.03	1.57	1.28
CIVILIAN EMPLOYMENT m (cb)	Aug.	59.9	60.1	57.7	51.8
Agricultural Employment (cb)	Aug.	9.5	10.1	9.1	8.8
Employees, Manufacturing (lb)	Aug.	15.5	15.2	14.9	13.8
Employees, Government (lb)	Aug.	5.3	5.3	5.5	4.8
UNEMPLOYMENT—m (cb)	Aug.	2.1	2.5	2.1	3.8
FACTORY EMPLOYMENT (lb4)	Aug.	153	150	148	147
Durable Goods	Aug.	177	175	171	175
Non-Durable Goods	Aug.	135	130	130	123
FACTORY PAYROLLS (lb4)	July	314	320	267	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	July	39.9	40.3	39.7	40.3
Hourly Wage (cents)	July	123.4	122.7	109.3	78.1
Weekly Wage ($)	July	49.25	49.37	43.38	31.79
PRICES—Wholesale (lb2)	Sept. 20	158.1	157.4	128.8	92.2
Retail (cdlb)	June	178.8	177.1	147.7	116.2
COST OF LIVING (lb3)	June	157.1	156.0	133.3	110.2
Food	June	190.5	187.6	145.6	113.1
Clothing	June	185.7	185.0	157.2	113.8
Rent	June	109.2	109.2	108.5	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	8.82	8.57	8.56	4.72
Durable Goods	Aug.	2.05	2.07	1.77	1.14
Non-Durable Goods	Aug.	6.77	6.50	6.79	3.58
Dep't Store Sales (mrb)	Aug.	0.67	0.62	0.72	0.40
Retail Sales Credit, End Mo. (rb2)	July	4.87	4.90	3.35	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	July	231	245	204	181
Durable Goods	July	262	270	229	221
Non-Durable Goods	July	212	229	188	157
Shipments (cd2)—Total	July	270	292	206	184
Durable Goods	July	287	323	216	223
Non-Durable Goods	July	258	271	199	158
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	38.5	38.7	30.1	26.7
Manufacturers'	July	22.7	22.6	18.0	15.2
Wholesalers'	July	6.7	6.8	4.7	4.3
Retailers'	July	9.1	9.3	7.4	7.2
Dept. Store Stocks (mrb)	July	1.8	1.9	1.7	1.4

PRESENT POSITION AND OUTLOOK

(Continued from page 41)

were up 21%, and 40% during the following week, compared with last year when sales and deliveries were cut by strikes.

* * *

Department store **Net Profits** per dollar of sales averaged only 3.1 cents during the first half of 1947, compared with 6.4 cents for the like period last year. More mark-downs, smaller mark-ons and lower cash discounts contributed to reduce gross margins. Evidently department stores are not responsible for the mounting cost of living this year.

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Granting of a major portion of the requested 26.8% increase in **Freight Rates,** however, will give another boost to prices, including the carriers' own costs; yet they must have the increase to meet expanding outlay for wages and material.

* * *

Net private **Indebtedness** rose $8 billion during 1946, ending the year at around $150 billion. Yet total net private and public debt declined nearly $15 billion last year, owing to retirement of $23 billion of Federal debt, mostly from idle Treasury cash.

* * *

Net profits of our **National Banks** totaled $242 million for the first half—$39 million less than last year; but still at an annual rate of 9.1% on capital. Earnings assets are now expanding again and third quarter profits should at least equal last year's.

* * *

Interest Rates continue to edge up slowly, though intermitently. The Treasury has lifted its rate on 1-year certificates to 1%, against 7/8% previously. Following this, leading New York banks have raised their rates to 1 1/8%, from 1%, on prime commercial paper running up to 90 days.

* * *

Under heavy demand, Government bond prices have held firm despite sales by Federal agencies of $1,675 million during the five-months' period ended Aug. 31. On the other hand, **Yields** on corporate bonds are creeping up slowly as evidenced by a decline in the M. W. S. index of high grade railroad bonds to the lowest level since 1944.

* * *

Recently, an A-rated utility bond—the Monongahela issue—was offered to yield 0.6% more than the Treasury 2 1/4s. Early this summer the spread on an issue of similar grade was only 0.4%. Investors seem to be in a mood now to prefer safety to yield, and still regard U. S. bonds as the safest media available, despite lavish Government spending.

* * *

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—l—pc	Sept. 20	161.1	159.4	158.0	141.8
(M. W. S.)—l—np	Sept. 20	179.8	177.4	172.4	146.5
INDUSTRIAL PROD. (rb)—l—np	Aug.	182	177	178	174
Mining	Aug.	150	134	144	133
Durable Goods, Mfr.	Aug.	211	208	208	141
Non-Durable Goods, Mfr.	Aug.	169	164	164	141
CARLOADINGS—t—Total	Sept. 20	931	922	899	833
Manufactures & Miscellaneous	Sept. 20	413	404	389	379
Mdse. L. C. L.	Sept. 20	120	121	122	156
Grain	Sept. 20	54	56	48	43
ELEC. POWER Output (Kw.H.)m	Sept. 20	4,977	5,053	4,507	3,267
SOFT COAL, Prod. (st) m	Sept. 20	12.2	12.6	12.6	10.8
Cumulative from Jan. 1	Sept. 20	438	426	378	446
Stocks, End Mo.	March	57.7	49.5	58.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 20	5.2	5.2	4.8	4.1
Gasoline Stocks	Sept. 20	82	83	87	86
Fuel Oil Stocks	Sept. 20	57	56	58	94
Heating Oil Stocks	Sept. 20	59	58	59	55
LUMBER, Prod. (bd. ft.) m	Sept. 20	542	513	480	632
Stocks, End Mo. (bd. ft.) b	July	5.6	5.3	3.9	12.6
STEEL INGOT PROD. (st.) m	Aug.	6.99	6.57	6.93	4.96
Cumulative from Jan. 1	Aug.	55.8	48.8	40.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 25	135	91	84	94
Cumulative from Jan. 1	Sept. 25	4,106	3,971	4,061	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 20	153	180	157	165
U. S. Newsprint Consumption (st)t	Aug.	385	361	352	352
Do., Stocks (mpt) End Month	Aug.	474	453	469	523
Whiskey Production (tax gals.) m	July	7.2	9.9	8.9	11.8
Do., Domestic Sales	July	3.0	3.3	4.9	8.1
Do., Stocks, End Month	July	468	465	376	506

PRESENT POSITION AND OUTLOOK

Canada is expected to have a net adverse trade balance of $550,000,000 this year, which apparently will have to be met out of her U. S. dollar reserves of $1,244,900,000 (as of Jan. 1, 1947). This would leave the Dominion far from poverty-stricken at the end of the year; but she intends to be forehanded and stand squarely on her own feet.

* * *

Canada's reputation for resourcefulness and integrity would make it possible to float a sizeable dollar loan in this country; but several alternatives are under consideration. There is talk of restricting imports, devaluing her currency, subsidizing gold production, and she has even hinted that it would be nice and neighborly if Uncle Sam would suspend his tariffs on goods imported from Canada.

* * *

Talk of devaluing the Canadian dollar has at times given an upward shove to stocks of Canadian gold mines and paper mills listed on American exchanges. The reason for this is that devaluation would bring a large increase in profits earned by Canadian companies whose principal markets are in the U. S.—until the inflationary impact of devaluation upon Canadian costs of production becomes fully effective.

ag—Agriculture Dept. b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept. (Avge. Month 1939—100). cd3—Commerce Dept., seasonally adjusted monthly totals at annual rate. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted Index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935-9—100). lb4—Labor Bureau, (1939—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

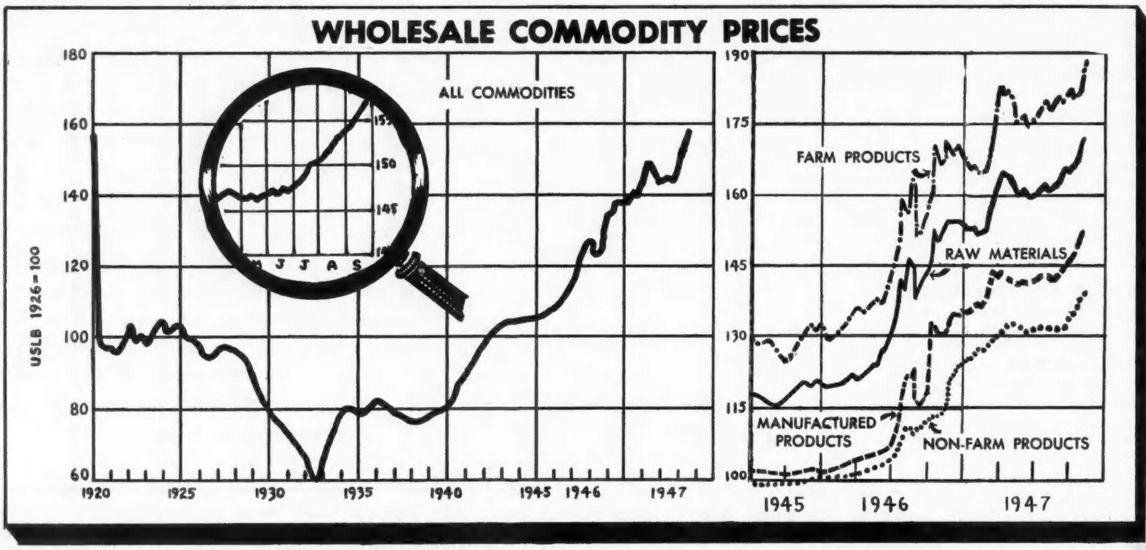
No. of Issues (1925 Close—100)	1947 Indexes High	Low	Sept. 19	Sept. 26
304 COMBINED AVERAGE	148.8	111.5	130.4	127.7
4 Agricultural Implements	188.0	143.4	185.7	181.6
11 Aircraft (1927 Cl.—100)	167.1	108.2	138.4	134.9
6 Air Lines (1934 Cl.—100)	636.9	467.2	495.0	468.3
6 Amusement	146.0	101.7	105.9	101.7b
14 Automobile Accessories	237.4	161.9	193.2	190.8
11 Automobiles	42.8	30.8	37.2	36.1
3 Baking (1926 Cl.—100)	24.1	18.9	19.7	19.6
3 Business Machines	301.6	230.8	254.0	249.4
2 Bus Lines (1926 Cl.—100)	175.0	116.1	130.8	127.4
4 Chemicals	261.6	223.8	248.4	244.2
2 Coal Mining	20.1	14.0	17.2	16.5
4 Communication	58.3	40.6	49.7	48.7
13 Construction	66.5	48.0	61.3	60.0
7 Containers	371.5	291.4	332.1	327.1
8 Copper & Brass	113.9	90.9	102.5	99.2
2 Dairy Products	69.7	55.9	59.7	58.4
5 Department Stores	78.6	55.6	65.3	63.5
5 Drugs & Toilet Articles	223.2	149.4	162.9	160.8
2 Finance Companies	255.8	203.3	240.5	237.7
7 Food Brands	190.4	155.2	172.2	170.2
2 Food Stores	78.9	63.6	71.9	70.8
3 Furniture	94.3	66.1	78.5	77.8
3 Gold Mining	924.7	738.4	860.1	846.0

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 19	Sept. 26
100 HIGH PRICED STOCKS	89.87	72.58	82.65	81.16
100 LOW PRICED STOCKS	183.14	124.35	146.61	143.21
6 Investment Trusts	62.8	48.3	58.3	56.2
3 Liquor (1927 Cl.—100)	933.6	592.1	779.5	759.8
8 Machinery	159.4	123.1	148.0	146.1
3 Mail Order	129.5	84.2	107.2	103.6
3 Meat Packing	111.2	84.9	102.8	101.2
13 Metals, non-Ferrous	196.7	137.4	149.8	146.6
3 Paper	39.9	31.3	39.6	39.8
23 Petroleum	215.5	172.2	202.2	196.3
20 Public Utilities	134.4	104.3	116.0	114.4
5 Radio (1927 Cl.—100)	23.2	16.1	19.4	18.9
8 Railroad Equipment	80.6	55.8	63.7	61.8
23 Railroads	27.2	17.0	21.4	20.9
3 Realty	32.9	22.9	26.0	26.4
2 Shipbuilding	116.0	87.4	107.4	116.0A
3 Soft Drinks	592.3	462.9	561.9	551.7
13 Steel & Iron	121.1	90.7	107.5	105.4
3 Sugar	68.2	51.4	55.3	52.5
2 Sulphur	253.8	211.0	230.7	227.1
3 Textiles	137.6	93.8	132.2	128.1
3 Tires & Rubber	41.4	28.8	31.3	30.8
6 Tobacco	87.4	65.2	71.4	69.7
2 Variety Stores	342.5	289.1	317.0	313.9
19 Unclassified (1946 Cl.—100)	108.5	83.7	98.5	96.7

A—New HIGH since 1946. b—New LOW since 1945.

Trend of Commodities

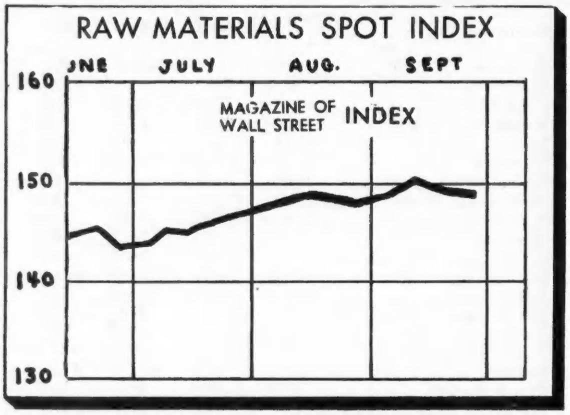
Food and feed grains rallied sharply during the past fortnight under renewed Government buying for export and reports that the soil is too dry for planting next year's winter wheat crop. Grain men think that unless rain comes to the southwest within a few weeks, the situation may become serious. The Exchanges have decided to raise grain margins 5 cents a bushel for each advance of 10 cents in prices; but it is believed that this will have little effect upon prices in comparison with the major influence, Government buying for export. Agriculture Secretary Anderson recently admitted that prices rise and fall as the Government moves in and out of the market. Nevertheless, at the next session of Congress efforts will be made to make "speculators" and commodity exchanges scapegoats for the mounting cost of living. Worse still, some of the bureaucratic planners in Washington have cooked up a scheme under which the Government would buy up practically the entire wheat supply and then allocate the grain into whatever channels bureaucratic officials, in their infinite wisdom, see fit. Proponents of the plan admit that attempts to buy up all wheat would force prices to fantastic heights; but their salaries would cover their own living expenses, so why worry about John Q. Public? Congress will not O. K. such a wild scheme; but we mention it to show how far an authoritarian Government will go, if given enough rope. Meanwhile wholesale food costs have already soared to 23% above the May, 1920, peak which preceded the post-World War I slump and there is no end in sight so long as foreign demand remains insatiable.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equals 100

	Date Sept. 27	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 1941
28 Basic Commodities	328.3	323.4	306.1	301.0	334.1	243.2	156.9
11 Imported Commodities	294.5	286.2	274.4	268.7	291.6	225.7	157.5
17 Domestic Commodities	352.2	350.1	328.6	323.9	364.9	255.3	156.6

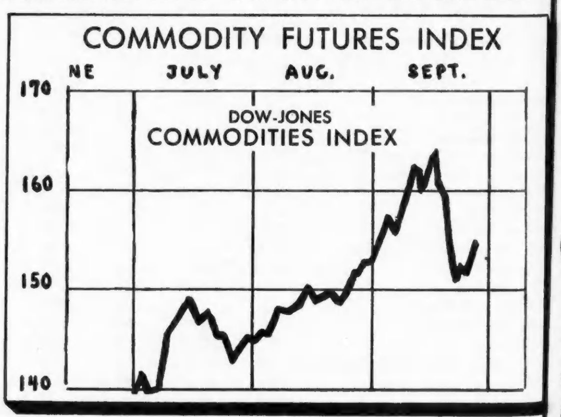
	Date Sept. 27	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 1941
7 Domestic Agriculture	379.0	389.3	378.0	357.0	348.8	293.9	[illegible]
12 Foodstuffs	415.3	409.6	362.1	364.0	412.6	304.0	[illegible]
16 Raw Industrials	273.1	270.7	264.2	260.7	280.0	205.6	[illegible]



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	150.4	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	[illegible]
High	163.63	127.07	106.41	96.57	84.60	64.67	54.95	[illegible]
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	[illegible]

Inflation Around The World

(*Continued from page* 21)

But nothing of that sort has happened, although in some countries a moderate contraction of purchasing power has been reported (Mexico, Brazil, Ecuador) and sales and prices in some lines (textiles) have apparently fallen off.

That Latin America has not as yet experienced deflation may be due (1) to the fact that consumer goods imports have been kept down. As a rule, Latin American countries have preferred the importation of industrial and transportation equipment. It will take time for the imports of capital goods to result in increased production and lower prices. (2) In recent years Latin American countries took a lead from practices abroad, and started to create considerable purchasing power through budgetary deficits. This has been particularly true in Argentina, Mexico, Brazil, Chile, and Peru.

Latin American Problems

In contrast with European practice, inflationary pressures have been scarcely "repressed" by controls. Private initiative has not been interfered with, or production discouraged. The main problem in Latin America will be the adjustment of prices and costs of the countries where Latin American goods are being sold. The time will come when the international price level will begin to decline and when Latin America will be forced to expand her exports. The adjustment will probably be made in the least painful way by currency devaluation. A glance at the free market quotation for the dollar in individual Latin American countries (table II) provides an idea how drastic such devaluation eventually might be.

Not all European countries have been blighted, however, by the combination of inflation and socialist-collectivist controls. Belgium has remained relatively free of such controls. At the instigation of M. Camille Gut, now the head of the Monetary Fund, enegetic steps were taken as early as October 1944 — as the latest report of the Bank for International Settlements describes it — "to put the budget in order and to keep the total volume of credits granted within tolerable limits (partly by raising interest rates). Developments have shown that, given such policy, many problems in the balance of payments tend to solve themselves."

As will be seen from table II, the Belgian franc is being quoted at an insignificant discount. Domestic and foreign capital is apparently being attracted to Belgium, and as Mr Frere, the head of the National Bank, recently reported, the country's gold and dollar reserves actually increased some $110 million since January. Belgian industrial production is back to the pre-war level.

Swiss Gold Inflation

Switzerland has been faced by an inflation peculiar to herself — gold inflation. So heavy was the inflow of gold that the Swiss, fearing an expansion of currency and higher prices, decided to resell gold to the public. At first, gold bars and gold coins were sold to anybody, a Swiss national or a foreigner. But when imports became heavier and the danger of inflation passed, the gold sales were gradually restricted and finally last August stopped altogether, undoubtedly partly under pressure of the Monetary Fund authorities.

In Scandinavian countries, because of relatively small deficits, inflation has been "manageable" without too many controls. Consequently there has been little interference with private initiative. Since the reopening of international trade has permitted larger imports, the prices in Scandinavian countries have actually declined. In Portugal, prices have also been relatively stable and inflation has been "manageable" without too many controls.

Most of the "satellite" countries of Eastern Europe suffer from bad cases of inflation and collectivism. The situation is particularly bad in Yugoslavia where production has hardly started. In Hungary and Roumania, the Governments took bold steps to adjust drastically the relation between the supply of goods and the volume of money. In Roumania, for example, all the old bank notes were cancelled and new notes isued only in the equivalent of about $2 per person. The country is short of currency and the people are forced to work hard to earn additional money. Besides, the measures conveniently wiped out all the rich people. There is nothing but "proletariat" in Roumania at present.

In China, the postwar inflation has been of an extreme kind. The Government has been financing the anti-Communist campaign by printing money, with the result that confidence in the Chinese dollar has been ebbing away fast. Production, particularly on the part of farmers, was discouraged, and exporters refused to export as long as they got only CN $12,000 per U.S. $1. — while in the black markets the dollar was selling at around CN $50,000. The problem was recently solved by the establishment of an "official" open market where importers are free to bid for the dollars and other currencies offered by exporters.

Situation In Japan

The problem facing Japan consists also of fiscal and monetary reforms. Balance of the budget, however, will have to come first. Extreme inflation has discouraged the production of food and has resulted in serious evasion of rice collecting regulations.

Inflation in India and the Near East, Egypt, Palestine, Iraq, Syria, and Iran is much of the same kind as in Latin America. But instead of being caused by war-time exports, it resulted from the heavy military expenditures of the Allied Powers. When these expenditures dwindled in 1944 and 1945, prices declined considerably, but are still far above the international price level. A downward adjustment of exchange rates will probably be necessary. Once confidence is reestablished, considerable amounts of gold and dollars may reappear from hoards.

By far the biggest drop in prices since the end of the war has taken place in the Philippines. Controlled government spending and rapidly increasing production of goods for export and domestic consumption have brought about a remarkable reversal which could be a lesson to European countries.

Investment Audit Of E. W. Bliss Company

(*Continued from page* 30)

support of this premise, the company has stated that though backlog orders have declined to around $21 million compared with $28 million at the beginning of

the year, this reflects stepped up output rather than a slowing up of incoming orders. The influence of this factor upon profit margins is shown by a rise to 14.2% from 7.8% last year. But how sensitive profit margins of Bliss are to varying volume and operating conditions is clearly shown by the sharp fluctuations in margins that occurred over a period of ten years. Under conditions such as now prevail, very satisfactory profit margins are achieved, but this of course is subject to change depending on volume trends. Overhead expenses are not only large but difficult to curtail in slack times, for the company has to maintain a large staff of highly paid technicians at all times, as well as half a dozen district sales and service offices. In the four year period 1937-40, the average profit margin of 6.3% was perhaps a bit smaller than might be expected during intervals of slow business that may recur, because of the company's improved operating policies. The 11.5% average for the past ten years appears to constitute a more normal average long-term expectation.

Postwar Earnings Improvement

As was to be expected, freedom from price control and above all elimination of excess profits taxes have markedly contributed to the postwar earnings improvement. As against a net profit margin of 5.7% in 1946, the same ratio during the first half of this year had risen to 8.8%, more than double the ten-year average and greatly exceeding any war-time figure, despite higher volume during those years. With smoother operating conditions assured, results for the second half of this year should be at least equally favorable. According to an official statement, net earnings for the second half are expected to match at least those of the first half when net profits of $4.40 a share were reported. This points to full 1947 net of about $9 a share, an all-time record high.

It appears a reasonable expectation that the company can anticipate high volume operations for a considerable period. The order backlog alone points in this direction, as do the fairly well defined prospects for further volume business from major client industries. Expansion of the steel industry, for instance, is likely to be productive of sizable orders

for some time to come. Sooner or later, the automobile industry must retool for new models and return to its prewar habit of annual model changes, meaning more frequent retooling. E. W. Bliss Co. will be an important beneficiary of such development. As the largest producer of mechanical presses of every type, and as an important maker of container and hydraulic metal working machinery, as well as other equipment, the company, no doubt faces a prolonged period of quite active business. Foreign business, too, is likely to be substantial. Leverage of large sales should produce per share earnings far in excess of average experience.

Despite normally conservative dividend policies to maintain and build up working capital, the present quarterly 50c dividend on the common may well be supplemented in view of the favorable outlook ahead. Even at the $2 annual rate, the yield at present market price for the stock of around 29 is high, exceeding 6.5%. There seems to be little question, that, a $2 annual dividend, if not better, can be maintained by the company for a considerable time; thus on yield alone, the stock has attraction.

Prospects of price appreciation are more difficult to gauge under today's unenthusiastic market conditions. In relation to current and prospective earnings, the stock is extremely modestly valued, selling at little more than three times indicated 1947 net. Reluctance to fully discount prospective earnings possibilities has no doubt to do with realization of the cyclical nature of the company's business, but perhaps to a greater degree appears due to present market hesitancy which militates against more adequate valuation of indicated potentials. Any improvement in market sentiment thus could be productive of worthwhile price enhancement of the stock. At current level of 29, the stock is holding close to this year's high of 31. Back in 1945, when contract cancellations and reconversion produced a deficit of 14c a share, the stock reached a high of 36⅛ which compared with last year's top of 33¼.

Gain In Asset Values

Indicative of the marked improvement of the stock's position is the large gain in asset backing that has occurred since 1939. At the end of the year, book value was $18.30 per share; by June 30, 1947, it had risen to $31.20, a net gain for the period of $12.90. Even more remarkable, net current asset value of the stock, after all prior obligations, rose from 14c a comon share to $19.10 a share by mid-1947, a gain of $18.96 per share. In other words, a purchaser of the stock at current price of 29 acquires net current asset values of $19.10, an unusually high ratio. The latter figure is enhanced by the company's highly liquid position, with cash amounting to almost one-third of current assets. While inventories constitute about 50%, the firm nature of the order backlog would seem to render the overall position far more liquid than such a percentage would indicate.

Based on asset backing as well as earnings prospects, the stock at current price appears considerably undervalued.

Stock Splits And Growth Trends

(*Continued from page 27*)

Schenley Distillers is another interesting case. Before the first stock split-up in 1944, the common sold around 40. As a result

of three split-ups which occurred in 1944, 1945 and 1946, a pre-split holder of one share would now have 2.86 shares. The current price of the common is around 34, far below the bull market high (on a fully adjusted basis) of 100. Despite the severe drop of the stock because of the adverse conditions currently affecting the liquor industry, an original share holder would still have equities in the equivalent of $97, a gain of $57 over his initial investment of $40 a share. Schenley, through consecutive splits, has been capitalizing the tremendous expansion of the concern in recent years, though other reasons such as extremely high earnings may also have been responsible for the management's course of action. The growth factor in Schenley is well established and despite the industry's present setback is bound to leave its mark on the long term market action of the stock.

Varying Potentials

Naturally it would be highly fallacious to assume that every stock split denotes growth potentials, and that a holder of every stock that has been split can look forward to similar brilliant long term appreciation as indicated in our tabulation and referred to in more detail in the foregoing. That this is not so, has been amply made clear in the initial discussion of varying management objectives in ordering split-ups. Many splits effected since the war's end have certainly not been in growth companies at all. As indicated before, quite a number have been effected entirely for temporary market reasons of doubtful merit. This holds particularly true of split-ups of low-priced stocks.

However, it is not too difficult to identify stocks, the subdivision of which can be reasonably attributed to a desire to capitalize company growth. Listed in the smaller table accompanying this article are a number of situations which in the opinion of the writer can be classed as such with reasonable assurance. True, some of these shares are now selling below an equivalent price basis but by and large, this may be attributed to prevailing market conditions rather than to lack of intrinsic merit. As with the examples listed in the main tabulation, the real touchstone will be a long-term market action rather than short-term price swings. From the short-term viewpoint, stock splits have lost most if not all of their former appeal, as recent market action amply proves, in a good many cases.

After this article was written, we received from one of our subscribers the following letter—wholly unexpected and unsolicited. We quote this letter because it admirably illustrates the point we have been making.

"About twenty five years ago I wrote your good Magazine requesting your suggestion for a switch from American Sugar Refining into a stock which had a long pull possibility.

You recommended that I purchase 300 shares of a new $10.00 common stock issue by General Motors, which I purchased, and sold a few years later for $43.00 per share. In view of the stock splits which took place after I sold this stock, had I held it until today, it would have made me very independent.

Consequently, I have always had a very warm spot in my heart for your Magazine." Yours very truly,

A. C. J.

The Big Five in Floor Coverings

(*Continued from page* 33)

in the past six years of about $31 million. Dividends have been variable, but except for the 1931-33 period, they have been consistently maintained as far back as 1923, at least. Volume of $33.3 million in 1946 represented a new record, but at the present rate exhibited during the first half of 1947, sales this year may total well over $40 million. During the first six months, volume was $21.7 million, about $6 million more than in the comparable 1946 period. Not until the second quarter of the current year, however, did the company begin to show signs of expanding net earnings more proportionate to volume gains. Per share net for the first half of 1947 was 1 cent less than for the first six months in 1946, $2.33 against $2.34.

Better Cost Control

As an indication that Mohawk has been achieving a better cost control in the current year, net for the second quarter was $1.46 per share against $0.87 for the March quarter. If the later pace holds, 1947 net earnings may be around $5 per share. Mohawk carries on its balance sheet a sizable reserve of $1.5 million against possible inventory losses, equal to 10% of its June 30, 1947 inventory valuation. Its financial position is exceptionally strong, with a current ratio of 4.9, and with cash and securities alone sufficient to cover $4.4 million of current liabilities almost twice over. The company's capital structure is simple, with no funded debt or preferred stock and only 531,000 shares of $20 par common stock in the hands of the public. Net current assets per share of $30.30 compare with a recent market price of 36. Since this is the eighth consecutive year in which Mohawk has paid dividends of $2 per share annually, and its outlook has never been brighter, it would seem as these shares are rather modestly priced; dividend yield is 5.5%.

Alex. Smith & Sons

Alexander Smith and Sons Carpet Company for nearly a century has provided plenty of competition for other producers of soft surface floor coverings. During the past nine years its volume has tripled, reaching a peak of 045.2 million in 1946. In part this has been attributable to its acquisition of Sloane-Blabon Corporation, makers of linoleum, asphalt tile and plastic floor coverings. Through this broadened production, the company is able to offer almost a complete range of coverings to store buyers. Volume gains in 1947 have been impressive through the first half and seem sure to hold throughout the balance of the year. Sales of $31.4 million during six months ended June 30 last, were 59% above the corresponding period of 1946, but a mark-up in prices partially accounted for the better showing. Good cost control is indicated by a gain in net earnings per share of nearly 89% in the first six months of the current year, over the comparable period last year, to $2.75. The company may easily repeat this performance in the second half, to establish a new earnings record for ten years past.

Higher Working Capital

In 1946, the management bolstered the company's working capital by the sale of 50,099 shares of 3½% preferred stock. Between this and sizable amounts of earnings retained in the business, net current assets at the end of 1946 rose to an all time peak of $29 million. Except for three depression years, Alexander Smith & Sons has paid dividends in every year since 1874, a truly impressive record. Confidence of the management in its financial strength and near term sales potentials is shown by an increase in the quarterly dividend rate from 20 cents per share to 35 cents only a month ago, plus an extra dividend of 65 cents per share. The common stock at current price of 35 is 4 points below its high for the year, and based on indicated 1947 net of around $5.50 a share the price-earings ratio of about 6.5 to 1 seems not excessive.

Answers to Inquiries

(*Continued from page* 38)

creased to $7,111,911, or $7.02 per share on 957,476 shares of common stock, after provisions for dividends on the preferred. This compared with earnings of 5,204,912 for the preceding fiscal year, equal after preferred dividends to $5.28 per share on the 911,928 shares of common stock then outstanding. Earnings for the 1946 fiscal year, included a non-recurring profit of approximately $1,350,000 accruing from the sale of a building in Indianapolis. There was no substantial nonrecurring items contained in income for 1947. Working capital also increased during the year, amounting to $23,487,624 on May 31st, compared with $20,154,070 a year earlier. It is the belief of the corporation's president that the consumption of canned foods will not decline to the rate prevailing before World War II. Ever since the turn of the century, the trend in consumption of canned foods has been steadily upward. It has been supported by the rise of standards in living and the continuing shift of population from farm to city, and Stokely Van-Camp has shared more than satisfactorily in this increased consumption. Dividend payments on the common stock this year, have mounted to $1.25 a share plus a 10% stock dividend payable Nov. 20th. With increased competition entering the field, it is questionable whether earnings in the next fiscal year will be quite as high as they have been in the recent past.

Utilities

(*Continued from page* 35)

Columbus & Southern Ohio Electric was sold by Continental Gas & Electric in May last year. The stock was offered to the public at 53½, which proved too high a figure. At the current price around 42, the stock yields 6.8%, a substantially higher yield than for most other Ohio stocks. The apparent reason is the admixture of transportation business (one-fifth of gross revenues). Also, electric rates are well above the national average (with usage below the U. S. figure) and some readjustment, particularly in view of the high ratio of earnings to investment (about 9.4% last year), seems possible.

Consumer Power is still controlled by Commonwealth & Southern, and only about 12% of the stock is held by the public; eventually the rest of the stock may be used to retire Commonwealth preferred, or may be distributed to C. & S. common holders. 23% of generating capacity is hydro with the remainder modern steam plants. Rates are very

low, as with the Commonwealth system generally. The area is rapidly growing, due to the decentralization program of the automobile industry and the growth of the tourist business in Michigan. The residential load is high, accounting for 42% of revenues. The company this year embarked on a $100 million construction program, in anticipation of further growth; it is having difficulty in meeting current demands for electricity and gas.

Dayton Power & Light was divested from the Columbia Gas System in June Last year. 71% of revenues are electric and 25% natural gas. Earnings have been somewhat irregular, rising sharply in the last two years. The return on investment appears rather liberal (over 9%) and electric rates are above the national average. The company has refinanced its debt and preferred stock on reasonable terms.

El Paso Electric was the smallest of the three companies whose stocks were distributed by Engineer's Public Service this year. It supplies electricity to a strip of territory 200 miles long in the Rio Grande River Valley. Cotton and livestock are the principal industries, although El Paso is also an important railroad and trading center. 34% of revenues are residential and rural, 30% commercial and 20% industrial. The remaining 16% includes wholesale power sold to Juarez, an important Mexican city. Residential rates are well below the national average, and consumption is above average. The company has two relatively modern steam plants and produces about three-quarters of its power requirements. Probably due to the company's small size and relatively high earnings on invested capital (8.7% last year), the stock sells on about 6½% yield basis. However, high earnings in relation to the rate base are characteristic of Texas companies; regulation in that state is in the hands of municipalities, with a state law ostensibly limiting fair return to 8%.

Florida Power was originally in the Associated Gas & Electric System, the stock being sold to the public in order to aid liquidation of the sub-holding company, General Gas & Electric. The company has enjoyed better-than-average growth, with revenues in 1946 more than three times the figure for 1938. The service area extends from the Georgia-Florida line along the Gulf Coast to St. Petersburg, and through the central part of the state to Lake Placid; a subsidiary renders service to a substantial area in southern Georgia. Net income has shown substantial gains, per share earnings (on the present setup) increasing from 21c in 1937 to $1.48 in 1945. While only $1.28 was reported last year, earnings of $1.75 are anticipated for 1947. Further growth is expected, and the stock offers a generous yield (6.7%).

Gulf States Utilities is the second largest of the three Engineers Public Service properties, with revenues of about $17,090,000 a year. The company supplies electricity to 271 communities in south-eastern Texas and south-central Louisiana. The most important communities served are Port Arthur, Beaumont, Baton

Rouge and Lake Charles. 89% of revenues is derived from electricity, 5% from natural gas, and 3% each from water and steam. The oil industry is the most important local business, contributing 16% of total revenues, with other industrial consumers accounting for 22%; residential and rural revenues contribute 31%, commercial 25% and miscellaneous 6%. Residential rates are somewhat above the national average. The rate of return in 1946 was 7.8% on net original cost, which is probably not too liberal considering the character of regulation in this area. The initial common dividend (not yet declared) will be payable December 15, probably at the annual rate of $1.

Northern Indiana was part of the old Insull utility group in Indiana. In August 1946 Midland Utilities distributed 1.4 shares of Northern Indiana to each share held by its own stockholders. Earnings have improved sharply due to tax savings and other factors. Despite the conservative character of the present dividend rate in relation to earnings, the stock yields about 6.7%; earnings will be subject to moderate dilution when the new convertible bonds are eventually retired. The area served is rather highly industrialized, steel (the principal industry) accounting for 21% of revenues. Earnings are likely to prove cyclical, which may account for lack of investment interest in the stock, as reflected in the high yield. Another unfavorable point is that residential electric rates are somewhat above the national average.

Ohio Edison is controlled by Commonwealth & Southern, about 10% of the stock having been offered to the public last year to provide working capital. The company and its subsidary, Pennsylvania Power, supply electricity to a population of over a million in Ohio and Pennsylvania. Some of the important cities served are Akron, Springfield, New Castle and Sharon. Industries in this area include steel, rubber, machinery, autos and accessories, chemicals and food products. Reflecting the progressive rate of policy of the Commonwealth system, residential rates average about 2.74c per KWH, well below the national average. While the rate of return is rather high (8.5% on original cost), rates in Ohio are regulated largely by the municipalities and there seems to be no current agitation for lower rates. Earnings and dividends have shown a continued uptrend in recent years. The relatively low yield, 5.7%, apparently reflects hopes for an eventual increase in the dividend rate, which is conservative in relation to earnings.

Oklahoma Gas & Electric has no gas business, although it serves electricity to an area which includes important natural gas and oil fields. The industrial load is low, about 12% of revenues being derived from sales to the oil industry and 12% from manufacturing companies. The company is an important subsidiary of Standard Gas & Electric, serving 223 communities in Oklahoma and Arkansas, the largest of which is Oklahoma City. Domestic rates are high—3.97c per KWH—and residential consumption is well below the national average, but these conditions are largely explained by the availability of natural gas in this area. Earnings appear somewhat high in relation to property investment. Only about 16% of the stock is in the hands of the public, but eventually Standard Gas will sell or distribute the balance. The present dividend rate is moderate in relation to current earnings, which probably accounts for the yield of only 6.1% (slightly below average for the group).

Pennsylvania Power & Light has been quite stable this year with a range of about 18-22 (last year the stock sold as high as 27½). There have been two distributions of stock, one by National Power & Light in 1945 and the second by Electric Bond and Share in February this year. The company's financial setup has been greatly strengthened in recent years, and the present dividend appears conservative. The company has an ambitious construction program ahead. It enjoys favorable relations with the Pennsylvania State Commission, so that while residential rates are above average, there seems no danger of forced reduction. Depreciation charges, only 5.7% of gross last year, appear on the low side, though compensated to some extent by high maintenance expenditures.

Scranton Electric, as a former subsidiary of American Gas &

4 POINT

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Electric, is efficiently operated and has a sound capital structure. But the area served (which has been in a declining trend up to recent years, due to dependence on antracite coal) is somewhat of an adverse factor, though business interests in the city of Scranton are making a valiant effort to diversify local industry. The yield of 6.7% indicates that some investors still look askance at the stock.

Virginia Electric & Power is the largest of the Engineers Public Service subsidaries, the stock of which was distributed earlier this year. The company in 1944 was merged with Virginia Public Service (in the Associated Gas system), Considering the company's size and sound set-up, we thing the stock should eventually be worth more than 9.4 times earnings, but postponement of dividends until June 1948 (when $1 a share may be paid) has probably lessened market interest in the issue.

Wisconsin Electric Power is an important subsidiary of North American Company. Only about 6% of the stock is now in the hands of the public, but further substantial amounts will be distributed to holders of North American over the next few months. The stock, with the relatively low yield of 5%, as evidently attracted investment buying, but distribution of the remaining 94% of the issue may prove a temporarily unfavorable factor marketwise.

Convertible Preferreds

(*Continued from page* 24)

trend in the oil industry. Net available for Atlantic common for six months ended June 30, 1947 was $2.07 per share, compared with $1.75 for the relative period in 1946. While the conversion privilege in the case of this company may not seem as attractive as those of the others we have discussed, the stability of the business and the exceptionally high rating of the company itself may lend extra appeal to ultra-conservative investors.

Business and Investment Aspects of Our Foreign Policy

(*Continued from page* 15)

enterprises. It is estimated that no less than $1 billion of American private capital was invested abroad in 1946 alone in a wide range of undertakings, in oil fields, in mines, in industrial enterprises. Continuance of this type of investment depends on their safety and fair treatment, and here again, political policies and decisions may enter importantly. The need for American investments abroad is greater than ever and the opportunities are many, yet we know that today's climate for international private investment is not as favorable as in former years. Socialistic and nationalistic trends in many parts of the world have much to do with it. Moreover, for the time being, outright lending of private capital is overshadowed and retarded by the gigantic inter-governmental lending and borrowing now going on. At any rate, constructive foreign investment, whether purely financial or through direct acquisition and operation of capital assets, cannot be a "quick in-quick out" proposition; this renders them all the more susceptible to shifts in policy, whether political or economic.

Time Factors

While the problem of foreign investment is perhaps more important from a longer range viewpoint, questions affecting exports are of more immediate concern to manufacturers, exporters, even investors. At the moment, USA exporters are casting glum eyes on Anglo-American talks, fearing new hobbles on exports following new decisions to tide Britain over her more immediate difficulties. Even more important and numerous are the questions asked in connection with the Marshall proposal; and many of the answers will be found in the field of political decisions. Businessmen want to know whether the nations thus aided will gain sufficient economic momentum so that they can continue to make economic progress; whether all this will lead to a world in which business, including American business, can prosper instead of merely being kept alive. Failure of the Anglo-American loan has caused a great deal of disappointment. Businessmen now want to know whether assistance to Europe will be carried out in such a way that the results promised are reasonably sure of realization. The answers to these questions are of transcendent interest not only to businessmen but to investors as well, even those without direct commitments in companies with a stake abroad. For many months, the stock market has been beset by fears of what was going to happen abroad. The Marshall proposal doesn't seem as yet to have resolved these fears but if successfully carried out, it **could** assure four years of prosperity, with constructive stock market implications.

Deflation Threat

(*Continued from page* 10)

announced that this would increase the cost of steel going into the average car by $11. However, new automobile prices announced shortly thereafter showed increases of $45 to $229. This is only one of many examples that could be cited in almost every field.

Undoubtedly, resistance to new wage demands which may have to be fought out next Spring will be far tougher than last time. Industry has become alive to the fact that current and even higher price levels are incompatible with the expectation of a permanently higher postwar business volume. The big question is whether business all along the line can and will move fast enough to forestall an otherwise inevitable drop in consumer buying.

In view of the key position of food in the present price dilemma, it can be said—in the broadest sense—that as food goes, so goes the business situation. Applied to the world situation, one might add: "So goes the world." Food has become a tremendously important weapon in support of our foreign policy. In using it to the fullest possible extent, it is rapidly creating a double dilemma, posing the question whether we should risk the threat such a course holds for our own economy or whether Europe should come second. An acceptable compromise, undoubtely the only practical course, will require realistic and far-sighted action, and wholehearted cooperation among all parties to our economy. This may involve certain sacrifice; yet in the long run, it may prove by far the lesser evil.

As I See It!

(*Continued from page* 5)

to escape the political consequences which threaten to upset her carefuly worked-out plans for supremacy.

That Russia's angry attacks are so promptly and faithfully echoed by such men as Henry Wallace who recently saw fit to denounce leaders in our Government because of their former Wall Street connections, merely shows how far communist propaganda has penetrated thinking in our own country. Wallace of course is fully aware that the men he denounced were appointed because of their outstanding qualities proven by personal success, because of their ability and integrity which even Wallace is forced to concede. What does Wallace want? Would he rather see this country run by Eislers or Browders, by Soviet stooges who would be only too willing to take over and ruin us?

In meeting the Russian challenge, the Government was wise indeed to select men of proven ability, to place them in important positions where they can be of real service to the country. The Kremlin's attacks on them merely proves that they are the right men in the right places. By organizing a new Comintern, the Soviet Government has thrown down the gauntlet in a challenge to the non-communist world. We must be glad that at the helm of our Government are men who know how to meet this challenge.

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